

**PENSIONS COMMITTEE**  
**14 DECEMBER 2015****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 Panel 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 30 September by -0.1% but in the twelve months to September 2015 had outperformed the benchmark by +1.1%, which was 0.7% ahead of the target outperformance of +1.5%. However over the past three years Nomura have underperformed their performance target by 0.8% per annum.
5. Nomura's management changes in the developed Asia ex-Japan section of the portfolio continue to appear to have been successful, as this section of the mandate has outperformed benchmark over past year by 3.4%, however they are remain passively invested in Australia, in terms of stock selection, and have struggled to retain expertise in this market.
6. 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.

## **Capital International**

7. Capital International underperformed the index benchmark in the quarter ended 30 September by -0.6%. Their twelve month performance to September 2015 was 4.2% ahead of benchmark and therefore 2.7% ahead of their performance target (+1.5%), which is a pleasing improvement. However over the three years to the end of September Capital were 0.5% behind their performance target per annum. Concerns still exist over their multi manager system and Jin Lee, a new portfolio manager, has been promoted from the research portfolio during the quarter. The portfolio is now managed in four 'pots'; three portfolio managers and the research portfolio.

8. It is recommended that Capital International remain on watch at least until their extended discounted fee period ends on 31 December 2015.

## **JP Morgan Emerging Markets**

9. JP Morgan (Emerging Markets) portfolio performed strongly over the quarter providing a +1.7% outperformance against their benchmark. Performance for the year ended September 2015 was 1.9% ahead of benchmark and therefore 0.1% behind their target outperformance of +2.0% per annum. Over the past three years JP Morgan have underperformed their performance target by 1.3% per annum.

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

## **JP Morgan Bonds**

11. The Pension Investment Advisory Panel met on 26 November 2015 and has recommended that the JP Morgan Bond portfolio be placed under review and they have therefore been added to the list of managers 'on watch'.

12. JP Morgan Bond portfolio underperformed their benchmark by 0.3% in the quarter ended September. Performance for the year ended September 2015 was 0.2% ahead of benchmark and therefore 0.8% behind their target outperformance of +1.0% per annum. Over the past three years they have underperformed their performance target by 0.5% per annum. Concerns exist that JP Morgan have not utilised their risk budget effectively in order to achieve their performance target.

13. 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**

### County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Email: [worcestershirehub@worcestershire.gov.uk](mailto:worcestershirehub@worcestershire.gov.uk)

### Specific Contact Points for this report

Sean Pearce, Chief Financial Officer  
Tel: 01905 766268  
Email: [spearce@worcestershire.gov.uk](mailto:spearce@worcestershire.gov.uk)

### **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.