

**PENSIONS COMMITTEE**  
**27 APRIL 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;**
  - c) the recommendation from the Pension Investment Advisory Panel to terminate the Capital International mandate be approved with assets transitioned to the North America section of the LGIM passive equity portfolio; and**
  - d) the update on the appointment of Walton Street 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 outperformed the index benchmark in the quarter ended 31 December by 1.2%% and in the twelve months to December 2015 had outperformed the benchmark by +2.0%, which was 0.5% ahead of the target outperformance of +1.5%. Over the past three years Nomura have underperformed their performance target by 0.1% per annum, which is a substantial improvement.**
- 5. The ex-Japan elements of the portfolio detracted from total portfolio performance in Q4 of 2015 and Nomura remain passively invested in Australia, in terms of stock selection, whilst having struggled to retain expertise in this market.**

6. Whilst it is recognised that portfolio performance has substantially improved over recent quarters, it is recommended that Nomura remain to be monitored until a further period of sustained outperformance from both the Japan section of the portfolio as well as the developed Asia ex-Japan section is achieved. 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 underperformed the index benchmark in the quarter ended 31 December by -0.5%. Their twelve month performance to December 2015 was 3.0% ahead of benchmark and therefore 1.5% ahead of their performance target (+1.5%). However over the three years to the end of December Capital International were 1.2% behind their performance target per annum. Over the past ten years Capital are 2.4% behind their performance target per annum and therefore 0.9% behind the return a passive mandate would achieve per annum over the same period, gross of management fees.

8. Despite extensive negotiations between Capital International and Fund Officers a suitable fee discount could not be agreed and the previous fee discount, which was implemented to recognise Capital's underperformance, ended on 31 December 2015.

9. Taking into account Capital's underperformance against the required target over the medium to long-term and the loss of confidence in Capital's investment process, on 25 February 2016, the Pension Investment Advisory Panel made a recommendation to terminate the Capital International mandate.

10. It is therefore recommended that Capital International's mandate be terminated and the portfolio assets be transitioned to the North America section of the LGIM passive equity portfolio pending the forthcoming Strategic Asset Allocation review.

**11. Please note that Appendix 3 - Review of processes and controls – Capital International contains exempt information (on salmon pages) and should members wish to discuss the information included in the Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

### **JP Morgan – Emerging Markets**

12. JP Morgan (Emerging Markets) portfolio outperformed their benchmark over the quarter providing a +0.2%. Performance for the year ended December 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 1.9% per annum.

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

## **JP Morgan – Bonds**

13. The JP Morgan Bond portfolio outperformed their benchmark by 0.8% in the quarter ended December. Performance for the year ended December 2015 was 0.6% ahead of benchmark and therefore 0.4% 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.

14. 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.

## **Walton Street update**

15. The Walton Street fund (U.S. Property Debt) was considered as a potential investment opportunity during the selection process that was undertaken at the end of 2014. At that time Renshaw Bay was considered to be the preferable choice, but since that time bFinance continued to monitor developments during the Walton Street fund raising process.

16. In March 2016 contracts were signed with Walton Street committing the remaining £27.5m out of the original £200m allocation to Property and Infrastructure. An initial drawdown of c. \$5m was paid in early April 2016.

## **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)
- Exempt information (salmon pages) - Review of processes and controls – Capital International (Appendix 3)

## **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.