

## Regulatory and Other Committee

### Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	<b>Pensions Committee</b>
Date:	<b>09 October 2014</b>
Subject:	<b>Manager Report - Invesco Asset Management - Global ex UK Enhanced Index Equity Portfolio</b>

#### **Summary:**

This paper introduces a presentation from Invesco Asset Managers, who manage the Global ex UK Enhanced Index Equity Portfolio. Representatives of the manager will report on how our investments have performed.

#### **Recommendation(s):**

That the Committee note the report.

### **Background**

- 1 The Fund's external managers report quarterly in writing and at least once every twelve months in person to the Committee. Performance is formally reviewed every three years and a decision taken to retain the manager or re-tender the mandate. Contractually, management agreements can be terminated with one month's notice.
- 2 Invesco Asset Management Ltd commenced management of the global enhanced index equity portfolio on 1st July 2005. Management of the portfolio is undertaken by the Structured Products division of Invesco, who apply a financial model and optimisation process in the selection of stocks and the construction of the portfolio. The manager ran a US portfolio for the Fund from July 2000 until June 2005.
- 3 The global portfolio is the passive part of the Fund's global equity allocation and seeks, similar to the internally managed UK equity portfolio, to perform slightly better than the index whilst taking only a small degree of relative risk, i.e. likely deviation from the benchmark return measured by a forecast tracking error. The portfolio will hold a large number of stocks and deviate only marginally from the index in terms of countries and company sectors,

with out-performance expected to be generated from stock selection. The performance target for this portfolio is to outperform the MSCI World ex UK index by 1% per annum (before any fees are deducted) over a three year rolling period, whilst maintaining a forecast index tracking error of 1%. This would compare to an active manager looking to exceed an index by perhaps 3% per annum with a forecast index tracking error of 6%.

- 4 The manager's representatives presenting to the Committee are Michael Fraikin, Head of Client Portfolio Management, and Hugh Ferrand, Client Director.

**MANAGER PERFORMANCE TO 31<sup>ST</sup> AUGUST 2014**

- 5 The Manager will comment in detail on the market environment and performance over the last year. Performance in the period is set out in the table below. Over the year the portfolio returned 14.9% compared to a benchmark of 13.1%, an out performance of 1.6%.

	Manager Return %	Benchmark Return %	Relative Performance %
2013			
September	(0.04)	0.25	(0.29)
October	5.27	4.78	0.46
November	0.45	(0.10)	0.56
December	0.83	0.93	(0.10)
2014			
January	(2.61)	(2.89)	0.29
February	2.94	2.78	0.16
March	1.57	1.00	0.56
April	(0.75)	(0.58)	(0.16)
May	2.61	2.76	(0.14)
June	(0.27)	(0.04)	(0.23)
July	(0.18)	(0.37)	0.20
August	4.39	4.08	0.30
12 mths (cumulative)	14.86	13.05	1.60

6 Longer term performance is set out below.

	Portfolio %	Benchmark %	Relative %
3yrs Annualised	16.57	14.98	1.38
5yrs Annualised	13.41	12.06	1.20
Inception Annualised	9.33	8.00	1.24

7 The annualised performance since inception has been a return of 9.3% against a benchmark return of 8%, giving an out performance of 1.2%. This is above the targeted return of 1% per annum.

8 Annual performance has been well ahead of the benchmark in all of the longer term periods shown above. All aspects of the manager's reporting and administration have been very good.

## Conclusion

9 Invesco have continued to manage the Global ex UK Enhanced Index Equity portfolio to meet the out performance target, whilst keeping within their risk constraints.

## Consultation

### a) Policy Proofing Actions Required

n/a

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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