

Pension Fund Committee

Date: 27 November 2014

Agenda item 5

INFORMATION BULLETIN

The following topics have been identified as being of interest to the Committee. Councillors wanting further information on any of the items in this Bulletin are advised to contact Paul Finbow, Corporate Finance Specialist by telephone on 01473 265288, or via email paul.finbow@suffolk.gov.uk .

BENCHMARK ALLOCATION AND INVESTMENT PERFORMANCE REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2014

1. This report provides a summary of the benchmark allocation of the pension fund investments against the long term investment strategy and the performance for the Suffolk County Council Pension Fund in the quarter ended 30 September 2014.
2. The total size of the Fund at 30 September 2014 was £1,974m, an increase of around £49m from the valuation reported for June 2014.
3. The overall investment return of the Fund in the quarter was positive at 2.5%, just ahead of the benchmark return of 2.3%.
4. The annual return of 9.4% falls short of the benchmark by 0.4%. This is an improvement from the previous quarter as the poor performance returned in the quarter to September 2013, due to stock selection has now dropped out of the annualised figures.
5. The Fund's absolute return over a rolling three year period is 7.4%, below the benchmark by 0.6%. The Committee implemented a number of changes to its investment strategy in 2012, to address the under performance of the fund, the outcomes of which will take time to make a difference to the long term performance of the Fund.

Financial Position of the asset classes against benchmark

6. The Pension Fund's statement of investment principles sets out its overall investment strategy in terms of the shares of the fund that should be allocated to the various investment asset classes (equities, bonds, property etc.). The long term bespoke investment strategy was approved by the Pension Fund Committee in April 2013.
7. The actual valuation of the asset classes against the interim and long term benchmarks are set out in the table below. The interim asset allocation was approved to monitor performance against, whilst new mandates for investment in alternatives (particularly in infrastructure and timber) were established. Draw-downs for these continue and will do so for the next few quarters.

Asset Class		Actual	Interim	Long-term	Range Guidelines
	£'m	%	%	%	
UK Equities	343.0	17.4	17.8	17.8	+/-5%
Overseas Equities	680.0	34.4	32.2	27.6	+/-5%
Total listed equities	1,023.0	51.8	50.0	45.4	+/-7%
Private Equity	59.4	3.0	4.5	4.6	+/-5%
Property	202.7	10.4	10.5	10.5	+/-3%
Absolute Return	176.3	8.9	10.0	10.0	+/-3%
Infrastructure	37.6	1.9	1.8	5.0	+/-2%
Timber	5.8	0.3	0.3	2.0	+/-1%
Total Alternatives	481.8	24.5	27.1	32.1	+/-5%
Distressed Debt	37.2	1.9	1.5	2.0	+/-1%
UK Gilts	41.6	2.1	1.9	-	+/-2%
UK Corporate Bonds	233.4	11.8	10.9	11.7	+2%
UK Index-linked Gilts	81.8	4.1	4.1	4.2	+/-2%
Emerging Market Debt	39.5	2.0	1.9	2.0	+/-1%
Total Bonds	433.5	21.9	20.3	19.9	+/-3%
Cash	35.8	1.8	2.6	2.6	+/-1%
Total	1,974.1	100.0	100.0	100.0	

8. The Fund continues to be overweight in Overseas Equities and UK Gilts and underweight in Alternatives. The charts in **Appendix 1** show the Fund's asset allocation and the variance against the interim benchmark.
9. The cash figure consists of £14.3m held by the Pension Fund in a money market fund, £14.7m held by the investment managers in cash and £6.8m invested by the managers in money market funds. A breakdown of the cash held by investment managers is set out below.

Cash held by Investment Managers as at 30 Sept 2014			
Manager	Cash	Money Market	Total
	£'m	£'m	£'m
Alliance Bernstein	1.2	1.8	3.0
BlackRock	0.6	2.8	3.4
Brookfield	0.8	-	0.8
Newton	2.4	1.9	4.3
KKR	2.2	-	2.2
Schroders	7.5	0.3	7.8
Internal Cash	-	14.3	14.3
Total	14.7	21.1	35.8

10. The aim of internal cash management is to keep the balance within a range of between £5m and £10m to take into account funding commitments coming due within the period.
11. When the level drops below £5m a daily review is undertaken regarding capital calls to be made and distributions to be received. If the level is likely to fall below £3m then a disinvestment is made from Legal & General to restore the cash level.
12. When the level exceeds £10m a similar review is undertaken to establish whether there is an opportunity to invest the surplus cash with one or more of the investment managers. This exercise has not been carried out this quarter whilst the outcome of the asset allocation is still under review.
13. Managers are permitted to hold cash within the portfolio at prescribed limits, typically the manager's average total cash holdings over any 12 month period should not exceed 3% of the value of its Suffolk Pension Fund investment.

Financial Position of the Investment Managers against benchmark

14. The actual valuation of the investments held by each fund manager against the interim and long term benchmarks are shown below.

Manager	Benchmark Allocation by Manager			
	Holdings £'m	Actual %	Interim %	Long-term %
Alliance Bernstein	152.1	7.7	7.4	7.4
BlackRock	183.9	9.3	9.1	9.1
BlueCrest	34.8	1.8	2.0	2.0
Brookfield	6.6	0.3	0.3	2.0
CRIL	0.1	0.0	0.0	0.0
KKR	30.7	1.6	1.3	2.5
Legal & General	810.8	41.0	39.4	34.0
M&G	37.2	1.9	1.5	2.0
Newton	283.3	14.3	12.9	12.8
Pantheon	28.2	1.4	1.9	2.0
Partners Group	9.0	0.5	0.5	2.5
Pyrford	106.3	5.4	6.0	6.0
Schroders	210.5	10.7	10.5	10.5
Wilshire	31.0	1.6	2.6	2.6
Winton	35.3	1.8	2.0	2.0
Internal Cash	14.3	0.7	2.6	2.6
Total	1,974.1	100.0	100.0	100.0

15. Brookfield (timber), KKR and Partners (infrastructure) and M&G (debt opportunity) remain only part funded. These investments only call for capital when they have an investment to fund, and will continue to increase over the coming financial year.

16. When the investment strategy was drawn up in 2012, it was intended to fund these new allocations to alternatives from the Legal & General (passive index) holding. However, additional cash was received from the realisation of the Millennium (currency) investment (£35m) and the distributions currently being received from the private equity holdings. To date only £5m has been disinvested from Legal & General to fund these investments. There is approximately £49m of commitments still outstanding, if this was all funded from Legal & General this would only reduce its holding down to 38%, 4% adrift of the long term investment strategy.
17. The private equity holdings of Wilshire and Pantheon are currently 3.0% of the Fund. The Committee previously had taken a decision not to reinvest with these managers. Both funds have reached the maturity point and are in the process of realising the underlying investments and returning cash to the Suffolk Pension Fund. Therefore, the allocation to these investments will continue to fall.
18. The charts in **Appendix 2** show the Fund's asset allocation by investment manager and the variance against the interim benchmark.

Investment Managers' Performance

19. The investment objective of the Fund's investment managers is to outperform relative to their benchmark index (typically the index for the market they are invested in, like the FTSE All share index for UK equity managers). Therefore the managers' relative investment return (compared with their benchmark) is used to assess their performance. The investment returns produced by the managers can be highly volatile in a single quarter and the managers' performance is typically assessed over a rolling three year period.
20. The managers' relative performance in the latest quarter, over the past 12 months and over the past three years is summarised below.

Investment Manager	Relative Performance		
	Quarter to Sep14	12 months to Sep 14	5 Years (p.a.)
Alliance Bernstein	0.1	0.0	-1.8
BlackRock	1.2	1.7	0.6
BlueCrest	0.0	2.9	-
Brookfield	5.6	-	-
KKR	12.4	10.3	-
Legal & General	0.0	0.0	-0.2
M&G	-3.7	-0.1	-
Newton	0.7	-0.6	0.2
Partners Group	-0.7	7.6	-
Pyrford	-0.8	-3.5	-
Schroders	0.1	1.2	0.3
Winton	-0.6	2.5	-

21. Five year returns are not available for Bluecrest, KKR, M&G, Partners, Pyrford and Winton because these investments commenced in mid 2012.

22. Brookfield performance figures are not yet meaningful because the first investment was made in December 2013.
23. Private Equity relative performance is difficult to measure as it is compared with public equity indices which tend to be volatile over shorter periods. Typically private equity performance should be based on the cash returned to investors from the disposal of investments.
24. Legal & General has an index-tracking mandate, whose objective is to perform in line with the benchmark index. Any under or over performance on the mandate relates to technical factors rather than manager performance.
25. The charts in **Appendix 3** show each of the fund managers' relative performance over rolling three year periods where the data is available or quarterly otherwise, as reported by State Street Investment Analytics (SSIA)
26. **Appendix 4** shows the managers mandates and performance targets.

Overall Fund Investment Performance

27. The Pension Fund's absolute returns and its relative returns (compared with the overall Fund benchmark) on a rolling three year basis are set out in **Appendix 5**.

Cashflow Position of the Pension Fund at 30 September 2014

28. The payments and receipts of the Pension Fund for the quarter are summarised below.

Pension Fund Receipts & Payments 2014-15				
	Jun-14	Sep-14	Dec-14	Mar-15
	£'m	£'m	£'m	£'m
Cash in Hand B/fwd	9.4	9.0		
Contributions and Income Received	26.1	29.9		
Benefits and Expenses Paid	-26.1	-24.3		
Net Income	0.0	5.6		
Transactions with fund managers	-0.4	-0.3		
Cash Flow in the Quarter	-0.4	5.3		
Cash in Hand C/fwd	9.0	14.3		

29. The Cash flow between contributions and income received and benefits and expenses paid out was greater for this quarter due to the receipt of the annual deficit payments from the employers who do not pay these over on a monthly basis.
30. During the second quarter of the financial year, M&G requested the first two capital calls totalling £3.7m for the Debt Opportunities Fund II, which the

committee agreed an investment of £15m in June 2014. There was a further capital call of £0.8m for Partners and £0.5m for KKR.

31. The main distributions received in the quarter consisted of £2.8m from Wilshire and £1.9m from Pantheon.

Pension Fund Top Holdings

32. The top 20 holdings by the Pension Fund are set out in **Appendix 6**. These holdings in total are worth £1,185.2m and represent 60.0% of the Pension Fund at the end of 30 September 2014. The top 20 holdings include index-tracking funds (Legal and General), absolute return mandates (Pyrford, Bluecrest and Winton), Debt Opportunity (M&G), infrastructure (KKR) and pooled property investments by Blackrock, Schrodgers and Standard Life. The largest segregated investments held by the Fund this quarter are in Royal Dutch Shell, 2%, and British American Tobacco and HSBC both of which represent about 1% of the Fund.

Markets and Exchange Rates

33. Market closing positions for the major equity markets and a commentary on the markets behaviour in the past quarter are set out below:

Index	Market Index Value as at:			
	Mar-13	Mar-14	Jun-14	Sept-14
FTSE	6,412	6,598	6,730	6,623
Dow Jones	14,910	16,458	16,827	17,043
Dax	7,959	9,556	9,833	9,474

34. Following a long period of relative tranquility the financial markets began showing signs of volatility. Risk appetite decreased as escalating geopolitical tensions added to renewed concerns about recovery. Equity prices fell in August, especially in Europe, but recovered by early September in anticipation of further monetary stimulus in the euro area.
35. The exchange rates for US dollar and euro over the last two years are set out below:

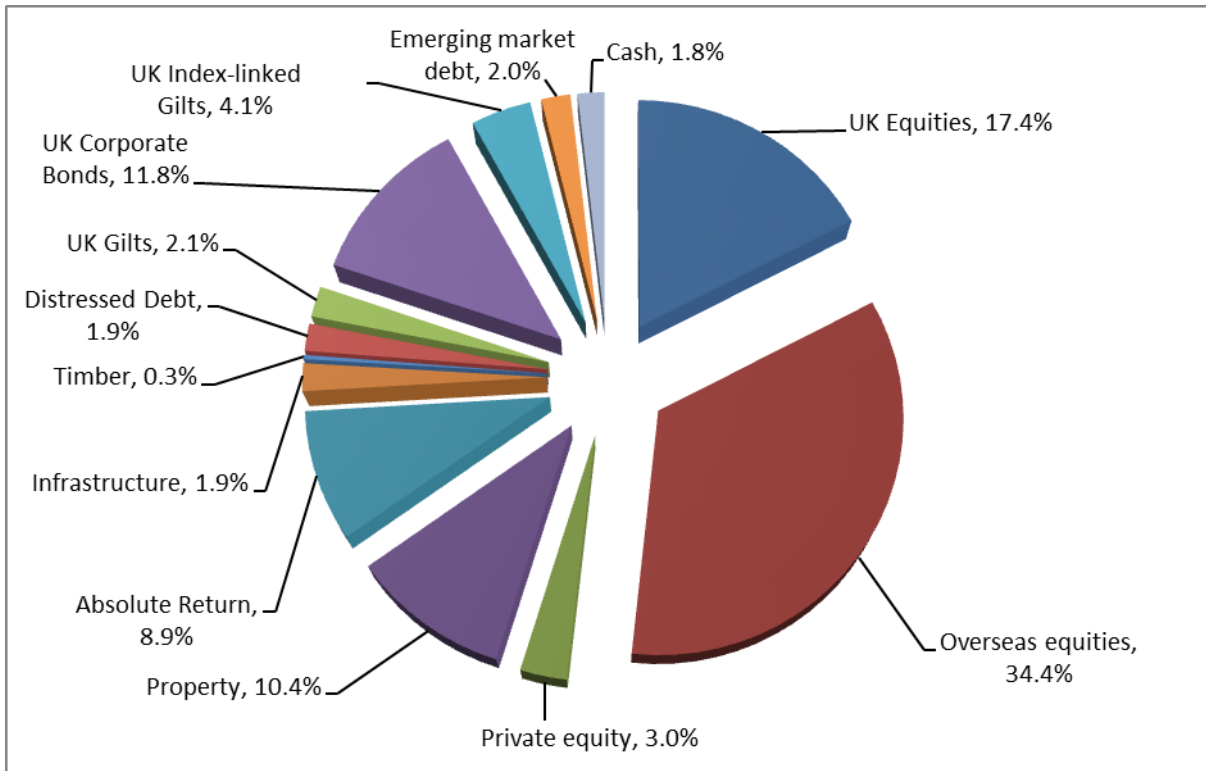
Currency	One pound buys the following currency:			
	Mar 13	Mar 14	Jun 14	Sep 14
Dollar	1.52	1.66	1.71	1.62
Euro	1.19	1.21	1.25	1.28

SOURCES OF FURTHER INFORMATION

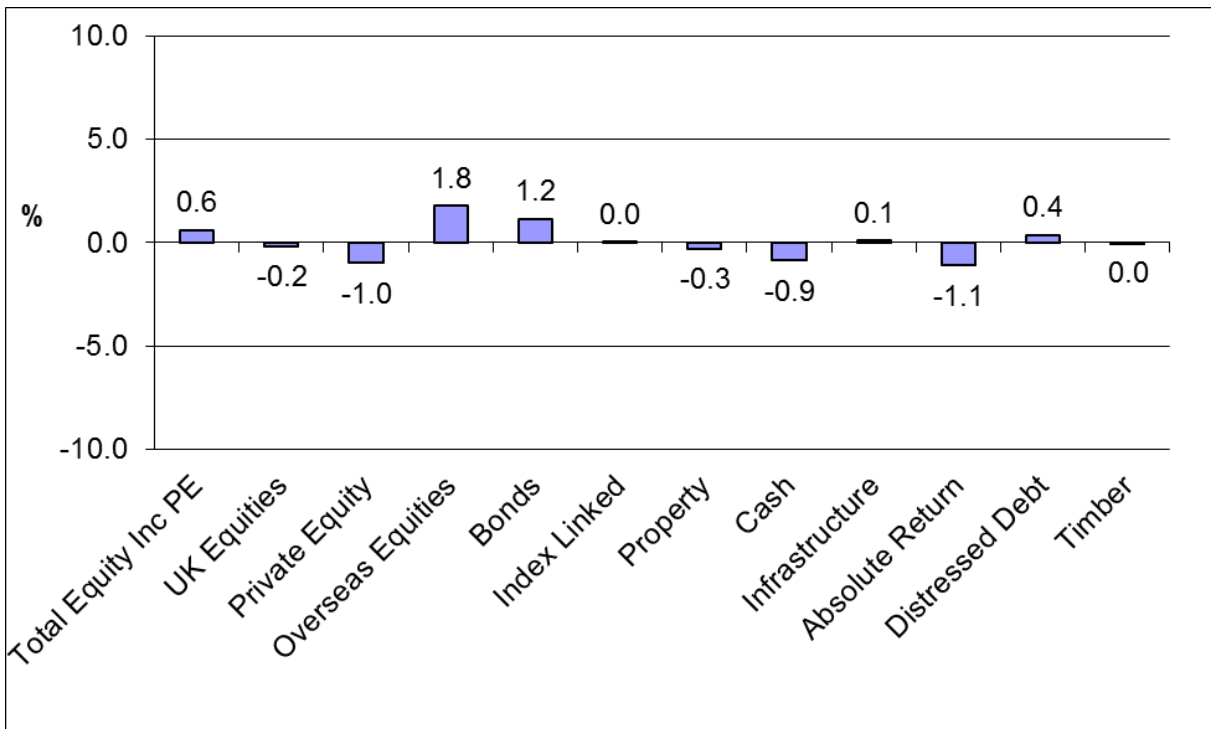
Quarterly Performance Report to 30 September 2014 – State Street Investment Analytics (SSIA)

ASSET ALLOCATION Portfolio Valuation at 30 September 2014

Asset allocation by asset class

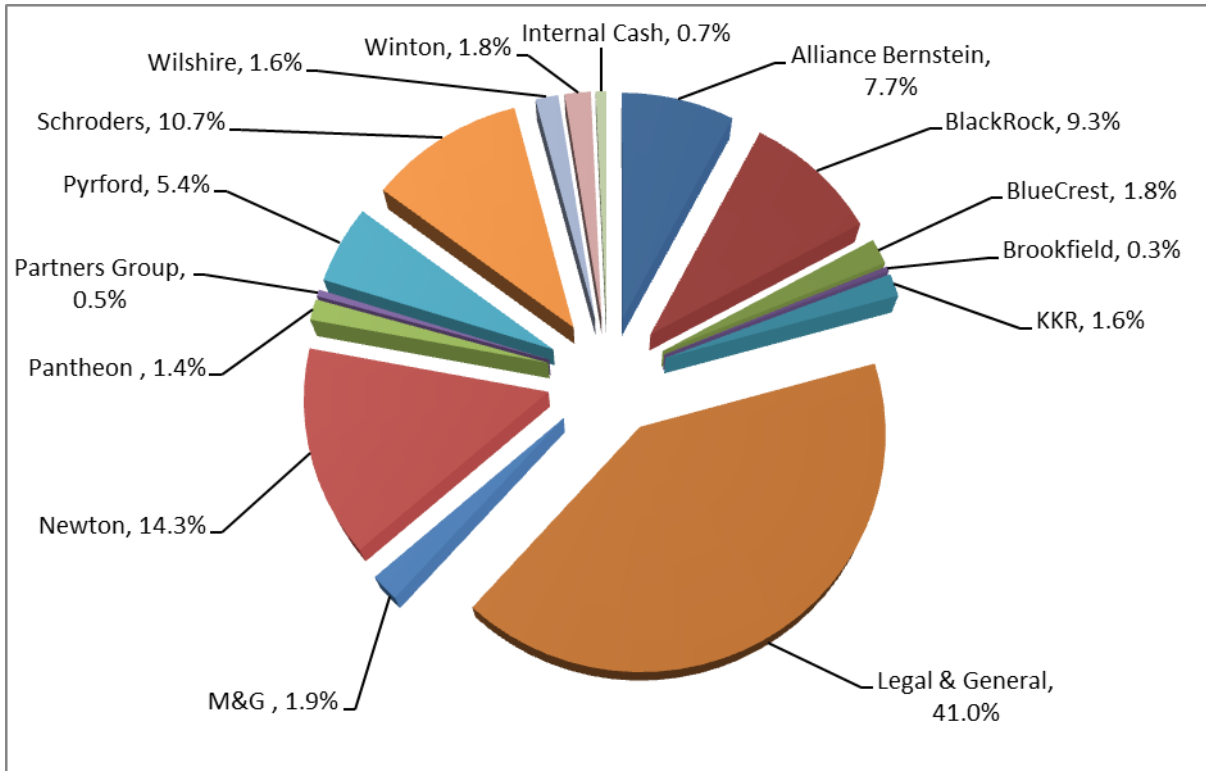


Variance of asset allocation from benchmark by asset class

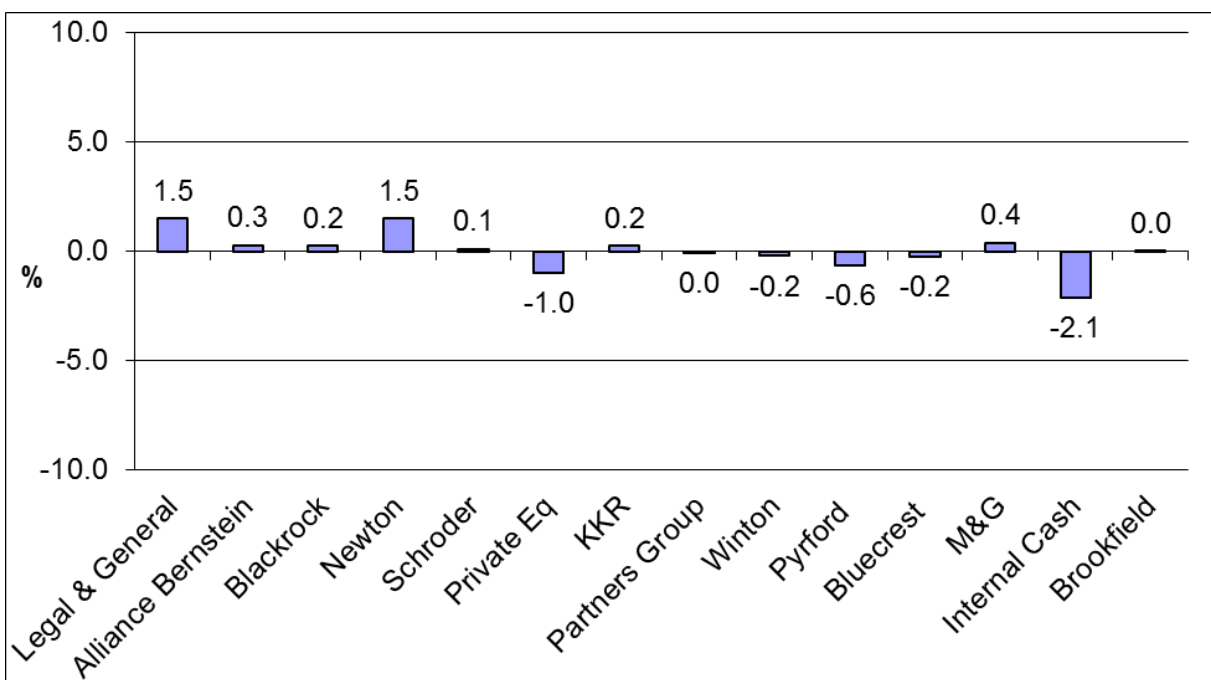


Portfolio Valuation at 30 September 2014

Asset allocation by manager

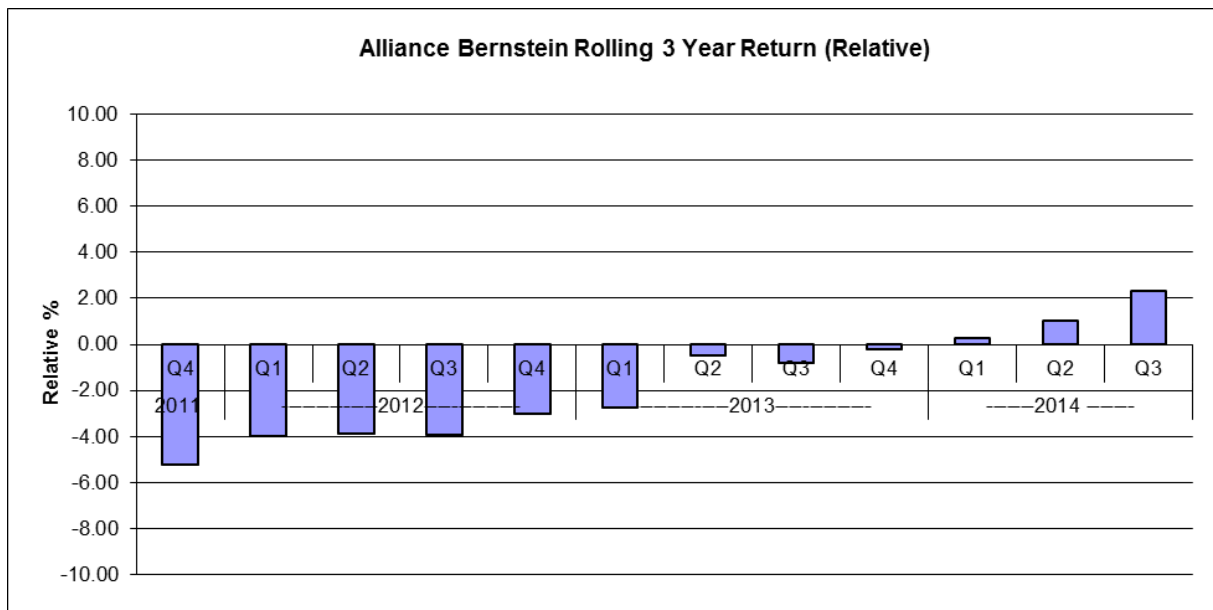


Variance by manager from asset allocation benchmark

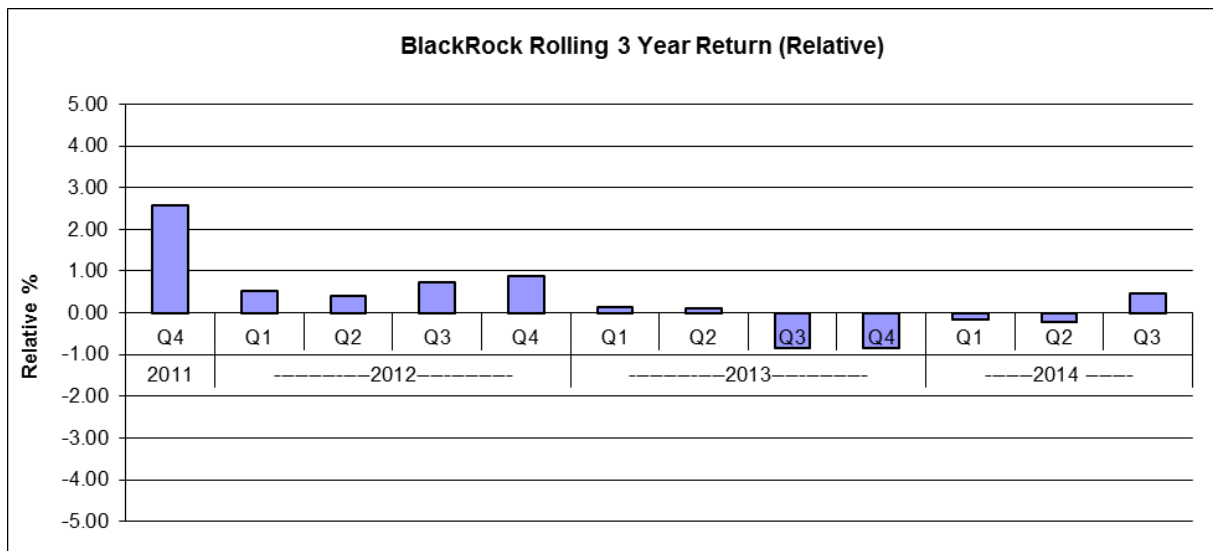


MANAGER PERFORMANCE

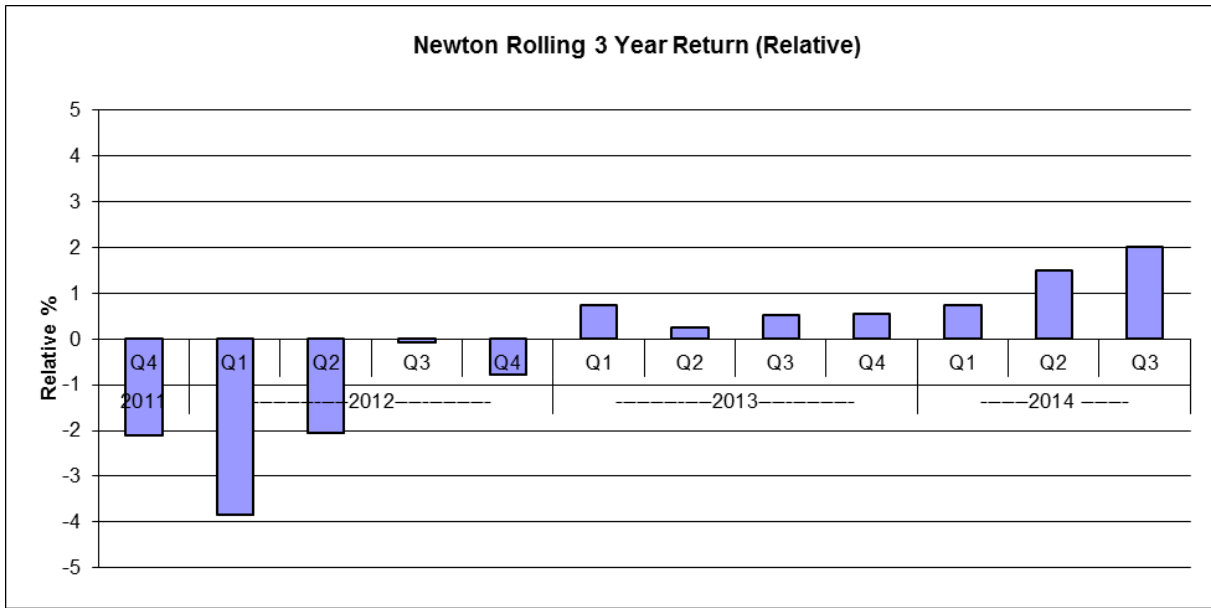
Rolling 3 Year Performance – Alliance Bernstein



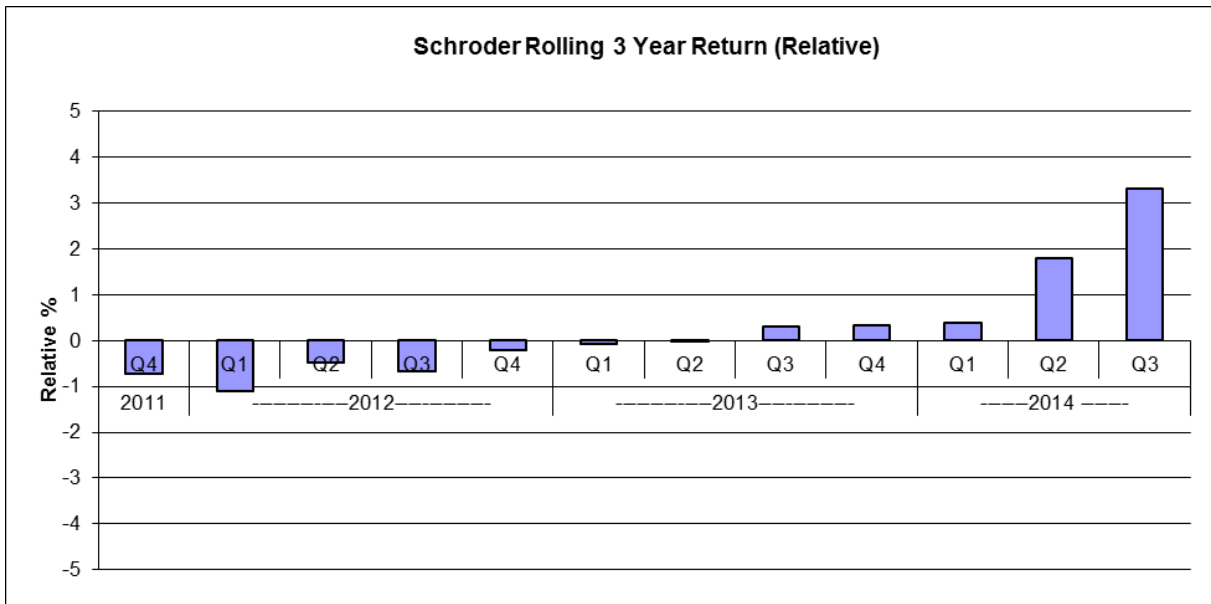
Rolling 3 Year Performance – BlackRock



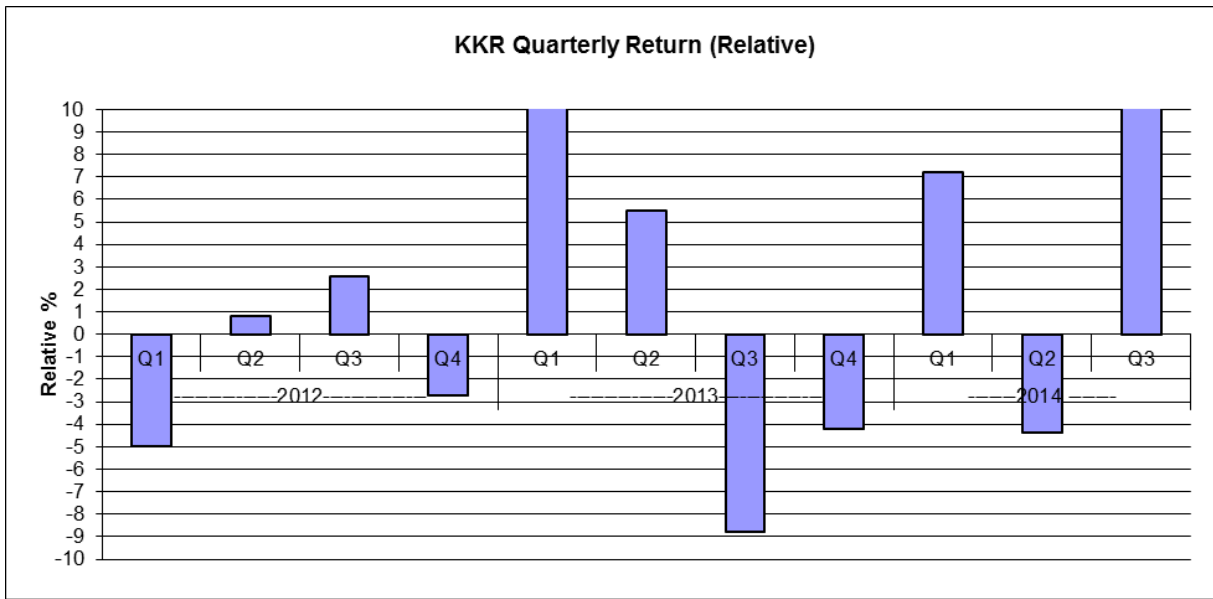
Rolling 3 Year Performance – Newton



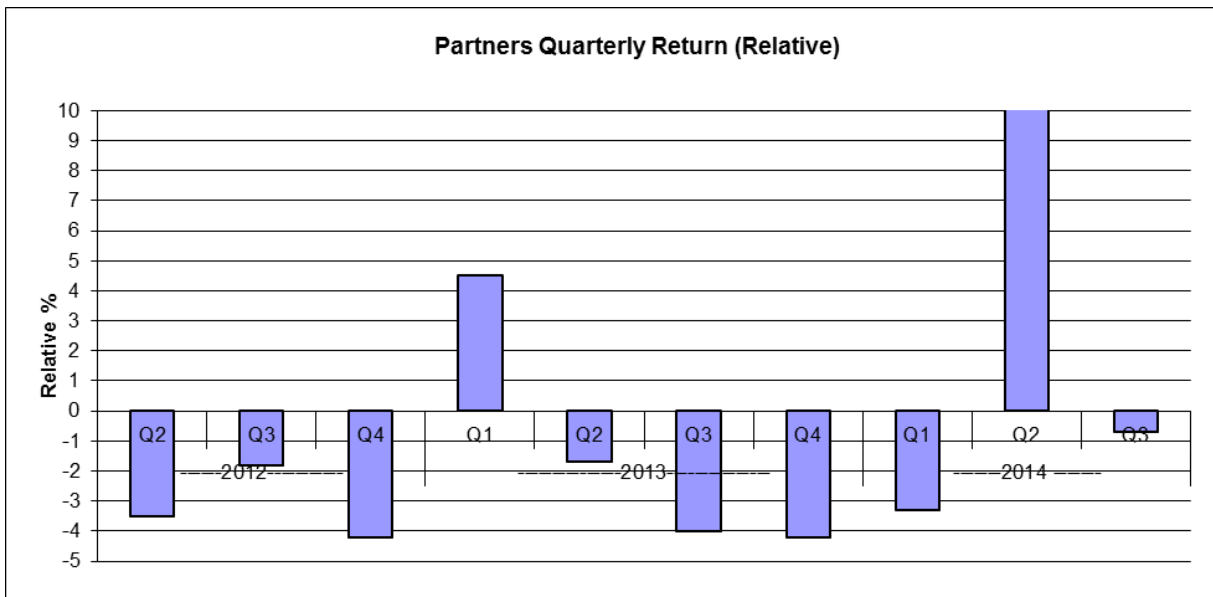
Rolling 3 Year Performance – Schroder



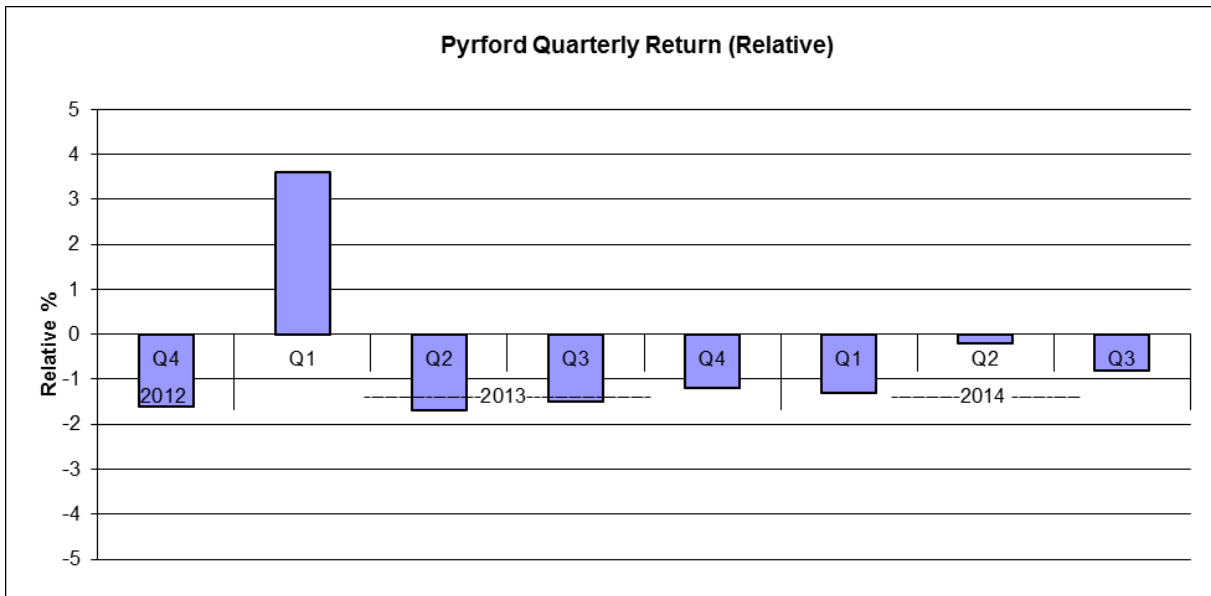
Quarterly Performance – KKR



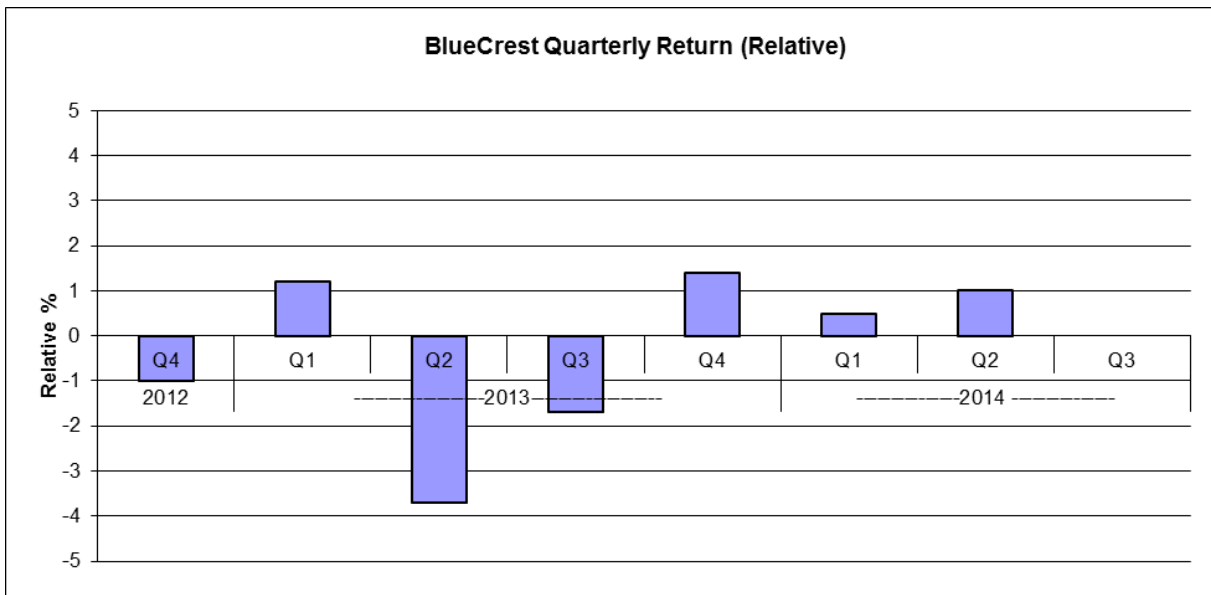
Quarterly Performance – Partners



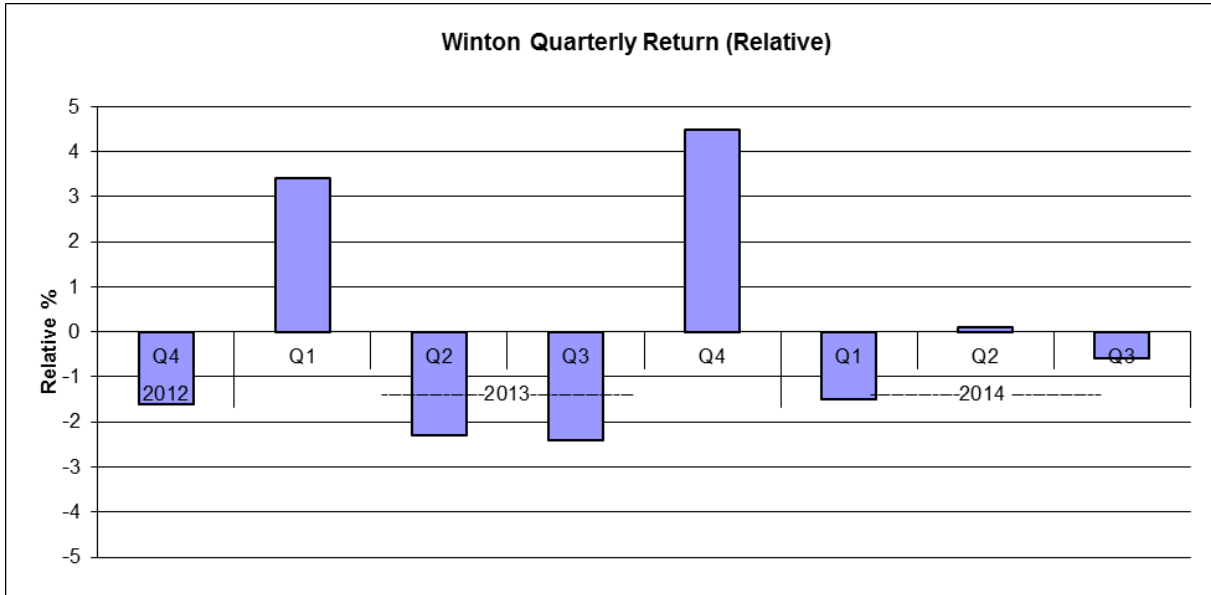
Quarterly Performance – Pyrford



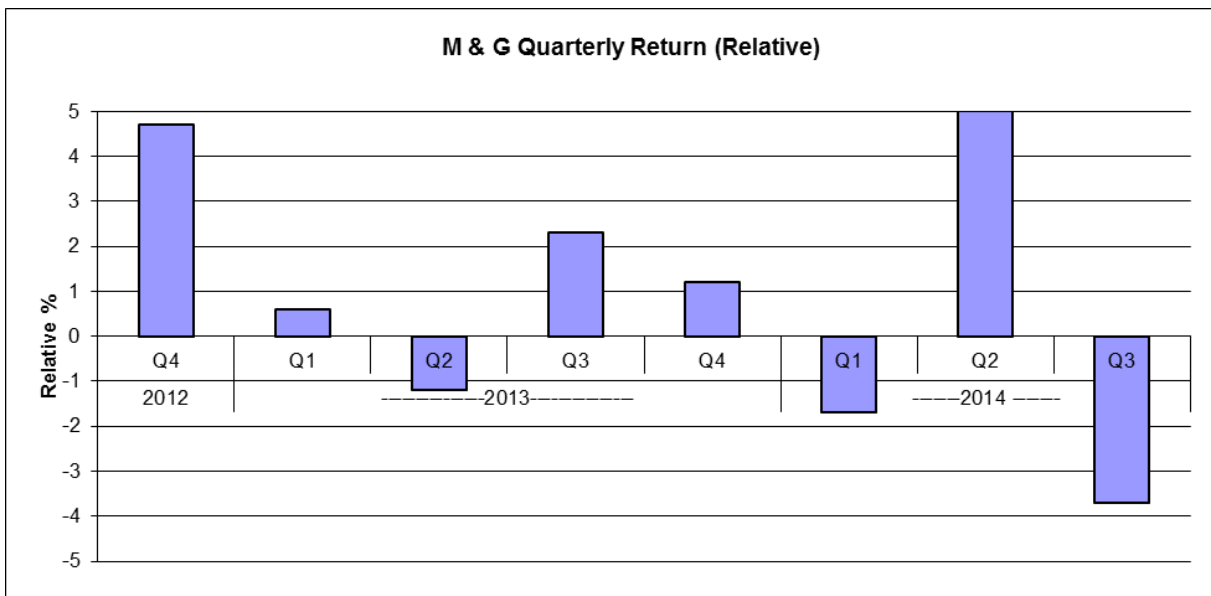
Quarterly Performance – BlueCrest



Quarterly Performance – Winton



Quarterly Performance – M & G

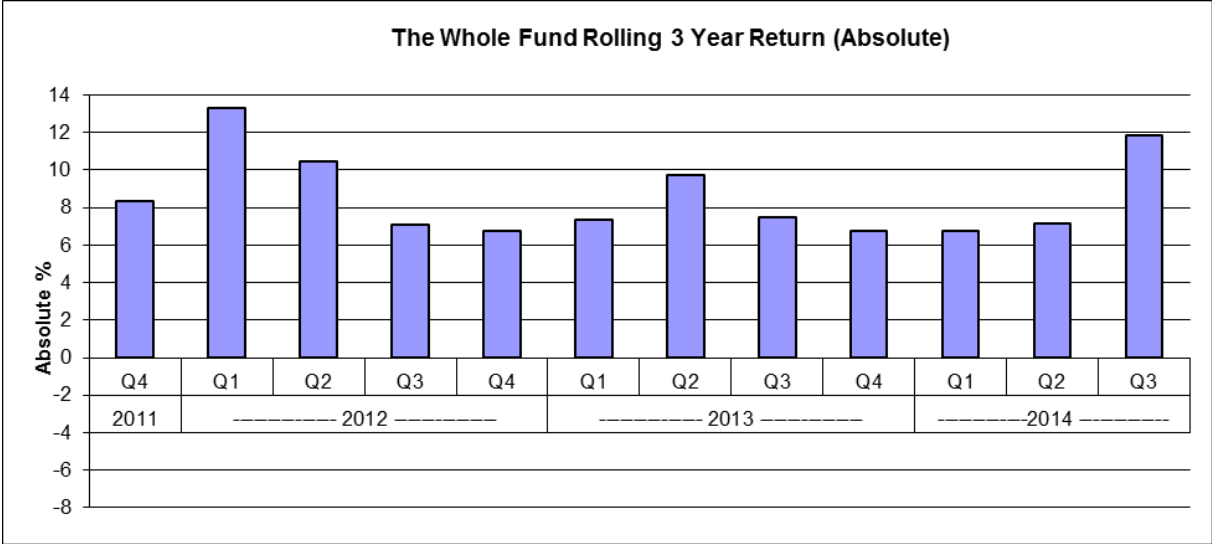


Manager mandates and performance indices

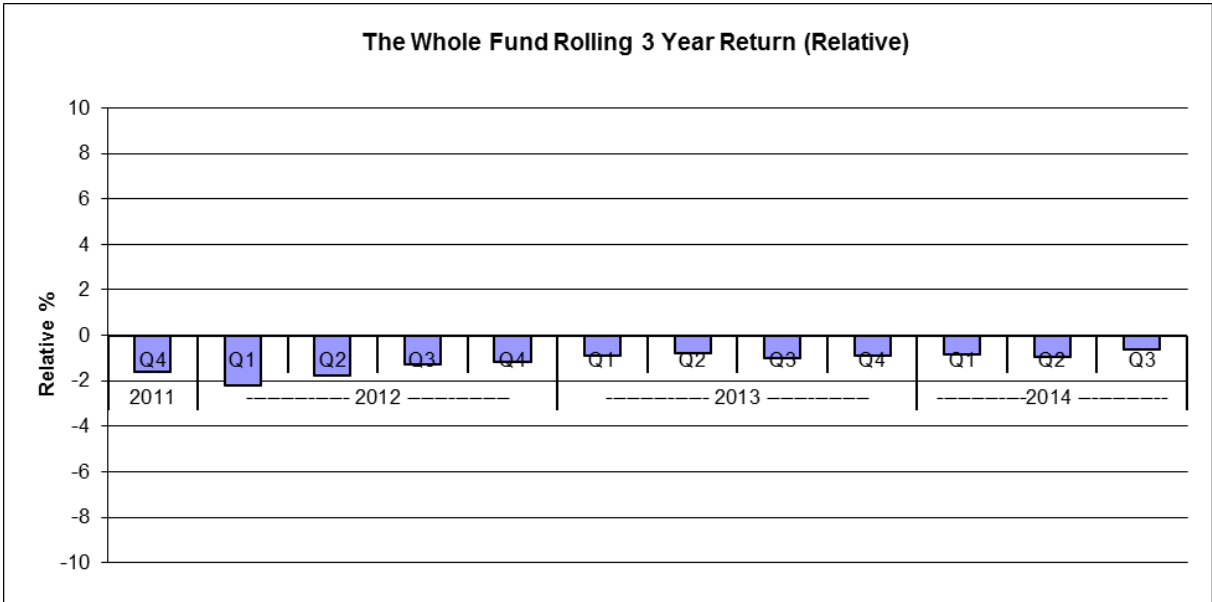
Manager	Mandate	Performance Benchmark
Alliance Bernstein	UK Equities	FTSE All Share + 2.5%
Blackrock	UK Equities	FTSE All Share + 2%
Bluecrest	Absolute Return	GBP 3 month LIBOR + 5% p.a.
Brookfield	Timber	8% p.a.
KKR	Infrastructure	8% p.a.
Legal & General	Multi Asset Passive	Composite
M&G	Distressed Debt	8% p.a.
Newton	Global Equities	MSCI AC World NDR + 2.5%
Partners	Infrastructure	8% p.a.
Pantheon	Private Equity	8% p.a.
Pyrford	Absolute Return	GBP 3 month LIBOR + 5% p.a.
Schroders	Property	IPD UK PPF – All Balanced Funds + 0.75%
Wilshire	Private Equity	8% p.a.
Winton	Absolute Return	GBP 3 month LIBOR + 5% p.a.

FUND PERFORMANCE

The Whole Fund Rolling 3 Year Performance (Absolute)



The Whole Fund Rolling 3 Year Performance (Relative)



Top 20 Holdings: 30 September 2014

	Name	Value £'m	% of Fund
1	L&G Investment Grade Corporate Bond	234.7	11.9%
2	L&G North American Index Hedged	136.4	6.9%
3	L&G European Equity Index Hedged	130.8	6.6%
4	Pyrford Global Mutual Fund	106.7	5.4%
5	L&G Over 5 years Indexed Linked Gilts	82.7	4.2%
6	L&G Global Emerging Markets	60.8	3.1%
7	L&G Asia Pacific Equity Index	51.8	2.6%
9	L&G Over 15 years Gilts Index	42.2	2.1%
8	L&G Passive Government Bond	40.6	2.1%
10	Winton Futures Fund Class D Mutual	35.5	1.8%
11	BlueCrest Limited	34.7	1.8%
12	M & G Debt Opportunities Fund	34.2	1.7%
13	Royal Dutch Shell Plc	30.3	1.5%
14	L&G Japan Equity Index Hedged	28.8	1.5%
15	KKR Infrastructure	27.6	1.4%
16	BlackRock UK Property Fund	22.9	1.2%
17	British American Tobacco Plc	22.5	1.1%
18	Schroders UK Property Fund	21.9	1.1%
19	HSBC	20.5	1.0%
20	Standard Life Pooled Property Fund	19.6	1.0%

