

## **Pension Fund Committee**

**Date: 26 February 2015**

### **Agenda item 6**

#### **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](mailto:paul.finbow@suffolk.gov.uk) .

#### **BENCHMARK ALLOCATION AND INVESTMENT PERFORMANCE REPORT FOR THE QUARTER ENDED 31 DECEMBER 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 31 December 2014.
2. The total size of the Fund at 31 December 2014 was £2,065m, an increase of around £91m from the valuation reported for September 2014.
3. The overall investment return of the Fund in the quarter was positive at 4.1%, 0.8% ahead of the benchmark return of 3.3%, this is mainly attributed to good stock selection by the managers.
4. The annual return of 10.6% is ahead of the benchmark by 0.7%. This is an improvement from the previous quarter as the poor performance returned in the quarter to December 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 11.4%, above the benchmark by 0.3%. 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 are beginning to take effect with regards to the longer 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 table overleaf shows the actual valuation of the asset classes held against the new long term asset allocation agreed at the 27 November 2014 Committee meeting.

Asset Class		Actual	Long-term	Range Guidelines
	£'m	%	%	
UK Equities	350.7	17.0	16.0	+/-5%
Overseas Equities	708.0	34.3	29.0	+/-5%
<b>Total listed equities</b>	<b>1,058.7</b>	<b>51.3</b>	<b>45.0</b>	+/-7%
UK Gilts	46.1	2.2	-	+/-2%
UK Corporate Bonds	249.7	12.0	15.5	+2%
UK Index-linked Gilts	88.5	4.3	4.0	+/-2%
Emerging Market Debt	40.5	2.0	2.0	+/-1%
<b>Total Bonds</b>	<b>424.8</b>	<b>20.5</b>	<b>21.5</b>	+/-5%
Private Equity	66.7	3.2	4.0	+/-5%
Property	204.1	10.0	10.0	+/-3%
Absolute Return	189.0	9.2	10.0	+/-3%
Infrastructure	44.1	2.1	5.0	+/-2%
Timber	6.1	0.3	2.0	+/-1%
Distressed Debt	39.7	1.9	2.0	+/-1%
<b>Total Alternatives</b>	<b>549.7</b>	<b>26.7</b>	<b>33.0</b>	+/-3%
<b>Cash</b>	<b>32.0</b>	<b>1.5</b>	<b>0.5</b>	+/-1%
<b>Total</b>	<b>2,065.2</b>	<b>100.0</b>	<b>100.0</b>	

8. The Fund continues to be overweight in Overseas Equities and UK Gilts and underweight in Bonds whilst the transition of these assets continues onto the next phase. Alternatives continue to be underweight whilst the infrastructure and timber mandates are still drawing down capital calls. The charts in **Appendix 1** show the Fund's asset allocation and the variance against the long term benchmark.
9. A breakdown of the cash held within the Pension Fund is set out below:

Cash balances held within the Pension Fund as at 31 Dec 2014				
Manager	Cash	Money Market	Deposit Account	Total
	£'m	£'m	£'m	£'m
Alliance Bernstein	0.1	1.5	-	1.6
BlackRock	0.1	2.0	-	2.1
Brookfield	-	0.9	-	0.9
Newton	-	2.2	-	2.2
KKR	-	1.7	-	1.7
Schroders	0.1	15.2	-	15.3
Internal Cash	-	-	8.2	8.2
<b>Total</b>	<b>0.3</b>	<b>23.5</b>	<b>8.2</b>	<b>32.0</b>

10. The cash figure consists of £8.2m held by the Pension Fund in a Lloyd's deposit account, £0.3m held in cash and £23.5m invested in money market funds. The

cash balance held has reduced from previous quarters because the new custodian, HSBC has a more efficient cash sweep process.

11. The Pension Fund has a USD cash sweep and a GBP cash sweep with HSBC which operates on a daily basis transferring any surplus cash balances as at 12.45 for GBP and 16.00 for USD into the money market fund or the other way if a negative cash balance is held.
12. A Euro liquidity fund service is not being offered as it is currently in a negative yielding environment.
13. 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.
14. 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.
15. 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.
16. Additional investments were made in December to reduce the cash balance held by the Pension fund and to rebalance the holdings within the fund. Pyrford received £6m and Bluecrest and Winton received £3m each.
17. 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.
18. Schroder's currently hold a large cash balance (that has been swept up into the money market fund) of £15.2m, due to the realisation of some of the investments. This money has been committed to be reinvested in the coming months and does not exceed their prescribed limits of cash holdings

## Financial Position of the Investment Managers against benchmark

19. The actual valuation of the investments held by each fund manager as at December 2014 against the interim and long term benchmarks are shown below:

Manager	Benchmark Allocation by Manager		
	Holdings £'m	Actual %	Long-term %
Alliance Bernstein	156.0	7.6	-
BlackRock	189.3	9.2	9.0
BlueCrest	35.1	1.7	2.0
Brookfield	7.0	0.3	2.0
CRIL	0.1	0.0	-
KKR	35.9	1.7	2.5
Legal & General	846.3	41.1	44.5
M&G	39.7	1.9	2.0
Newton	297.6	14.4	13.0
Pantheon	30.5	1.5	2.0
Partners Group	10.0	0.5	2.5
Pyrford	114.4	5.5	6.0
Schroders	219.5	10.6	10.0
Wilshire	36.1	1.7	2.0
Winton	39.5	1.9	2.0
Internal Cash	8.2	0.4	0.5
<b>Total</b>	<b>2,065.2</b>	<b>100.0</b>	<b>100.0</b>

20. 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.
21. Legal & General shows an underweight position in the table because the Alliance Bernstein holdings were not transferred to them until January 2015. The long term benchmark also includes all the allocation for corporate bonds until the Committee makes a decision on the final allocation at the March meeting.
22. The private equity holdings of Wilshire and Pantheon are currently 3.2% 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 unless the Committee makes a decision to reinvest in Private Equity.
23. The charts in **Appendix 2** show the Fund's asset allocation by investment manager and the variance against the long term benchmark.

## Investment Managers' Performance

24. 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.
25. The managers' relative performance in the latest quarter, over the past 12 months and over the past five years is summarised below.

Investment Manager	Relative Performance		
	Quarter to Dec14	12 months to Dec 14	5 Years (p.a.)
Alliance Bernstein	2.0	1.3	-0.9
BlackRock	1.8	2.5	1.0
BlueCrest	-0.5	1.0	-
Brookfield	9.5	-	-
KKR	9.9	26.6	-
Legal & General	0.1	0.0	-0.2
M&G	-0.6	-1.2	-
Newton	-0.1	0.4	0.1
Partners Group	1.1	13.6	-
Pyrford	0.6	-0.9	-
Schroders	-0.2	0.7	0.3
Winton	10.4	8.3	-

26. Five year returns are not available for Bluecrest, KKR, M&G, Partners, Pyrford and Winton because these investments commenced in mid 2012.
27. Brookfield performance figures are not yet meaningful because the first and only investment to date was made in December 2013.
28. 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.
29. 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.
30. 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)
31. **Appendix 4** shows the managers mandates and performance targets.

## Overall Fund Investment Performance

32. 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 31 December 2014

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

<b>Pension Fund Receipts &amp; Payments 2014-15</b>				
	<b>Jun-14</b>	<b>Sep-14</b>	<b>Dec-14</b>	<b>Mar-15</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
<b>Cash in Hand B/fwd</b>	<b>9.4</b>	<b>9.0</b>	<b>14.3</b>	
Contributions and Income Received	26.1	29.9	30.5	
Benefits and Expenses Paid	-26.1	-24.3	-24.2	
<b>Net Income</b>	<b>0.0</b>	<b>5.6</b>	<b>6.3</b>	
Transactions with fund managers	-0.4	-0.3	-12.5	
<b>Cash Flow in the Quarter</b>	<b>-0.4</b>	<b>5.3</b>	<b>-6.1</b>	
<b>Cash in Hand C/fwd</b>	<b>9.0</b>	<b>14.3</b>	<b>8.2</b>	

34. During the third quarter of the financial year, Partners received £1m and KKR, £1.4m for capital calls raised as part of their investment programme. Pyrford received £6m and Bluecrest and Winton, £3m each as part of the rebalancing exercise.
35. The main distributions received in the quarter consisted of £1m from Wilshire and £1.3m from Pantheon.

## Pension Fund Top Holdings

36. The top 20 holdings by the Pension Fund are set out in **Appendix 6**. These holdings in total are worth £1,235.1m and represent 59.8% of the Pension Fund as at 31 December 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, Schroders and Standard Life. The largest segregated investments held by the Fund this quarter are in Royal Dutch Shell and British American Tobacco both of which represent about 1% of the Fund.

## Markets and Exchange Rates

37. 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	Sept-14	Dec-14
<b>FTSE</b>	6,412	6,598	6,623	6,570
<b>Dow Jones</b>	14,910	16,458	17,043	17,983
<b>Dax</b>	7,959	9,556	9,474	9,806

38. The third quarter to December saw volatility significantly increase in most investment markets. Falling oil prices, Chinese and Eurozone slowdowns and continued Middle Eastern and Russian tensions were countered by positive economic news from the UK and US who are both showing a strong broad based recovery.
39. 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	Sep 14	Dec 14
<b>Dollar</b>	1.52	1.66	1.62	1.56
<b>Euro</b>	1.19	1.21	1.28	1.28

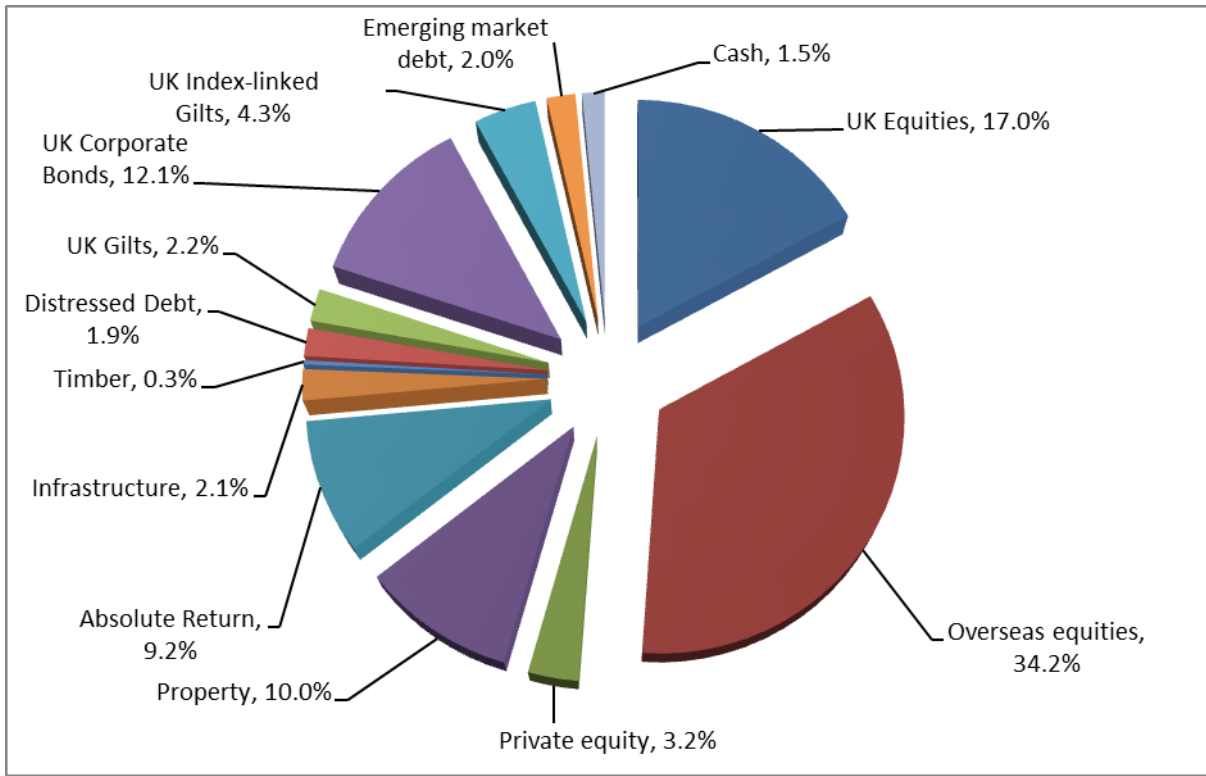
### **SOURCES OF FURTHER INFORMATION**

Quarterly Performance Report to 31 December 2014 – State Street Investment Analytics (SSIA)

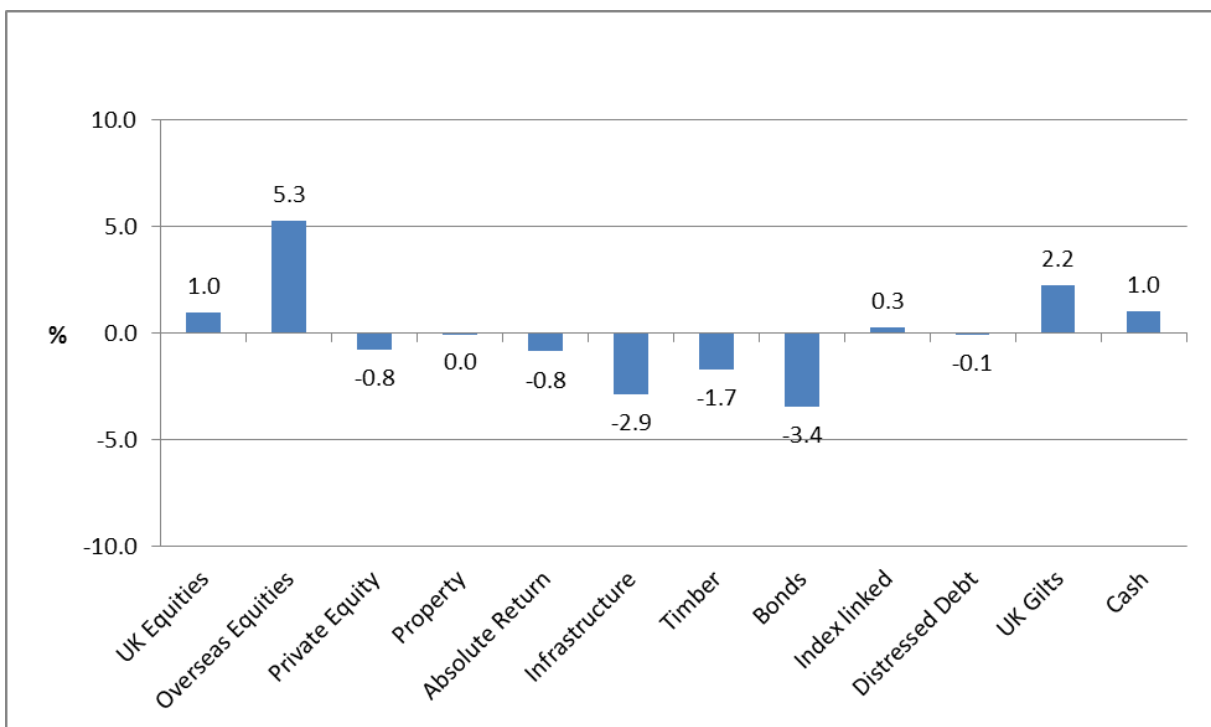
# ASSET ALLOCATION

Portfolio Valuation at 31 December 2014

## Asset allocation by asset class



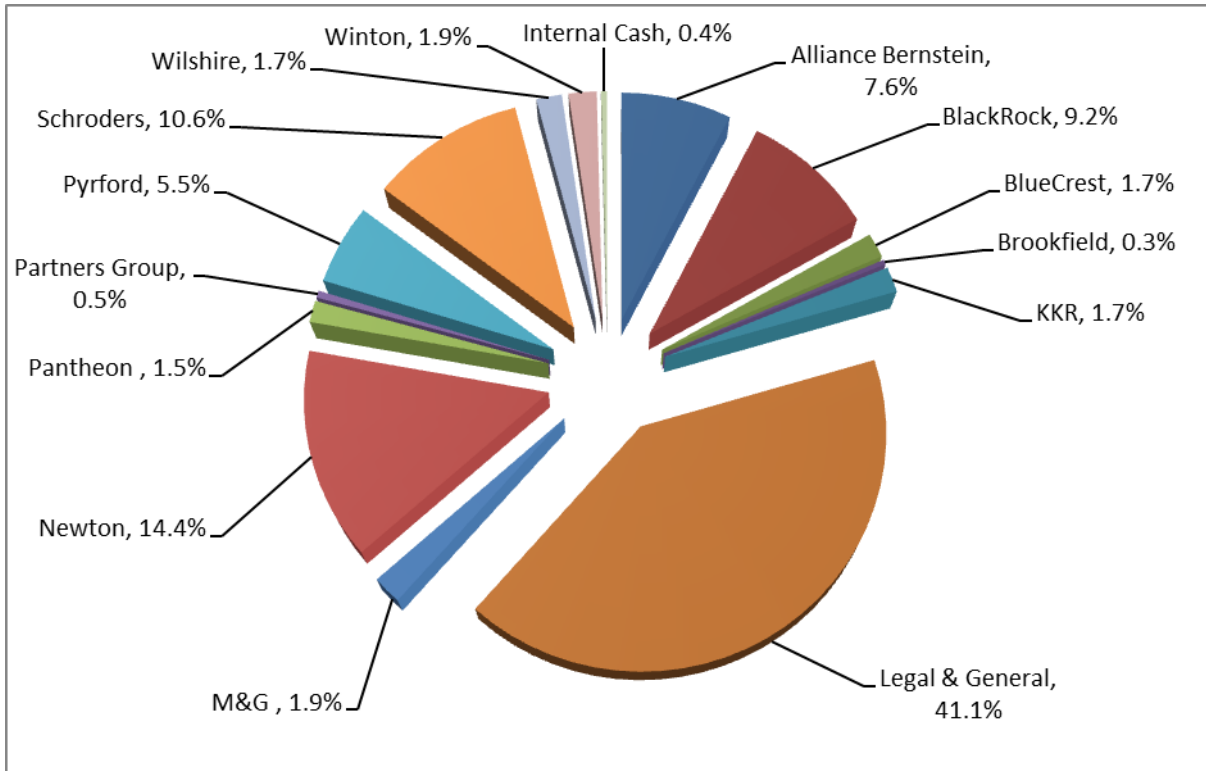
## Variance of asset allocation from benchmark by asset class



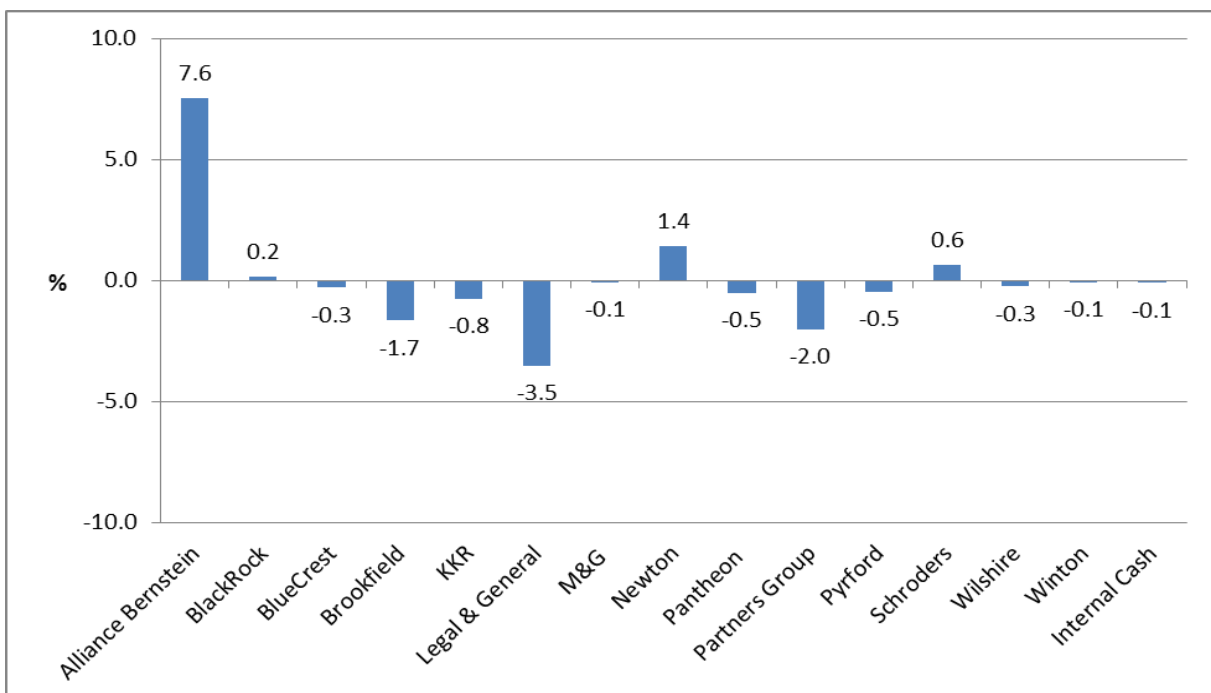


Portfolio Valuation at 31 December 2014

Asset allocation by manager

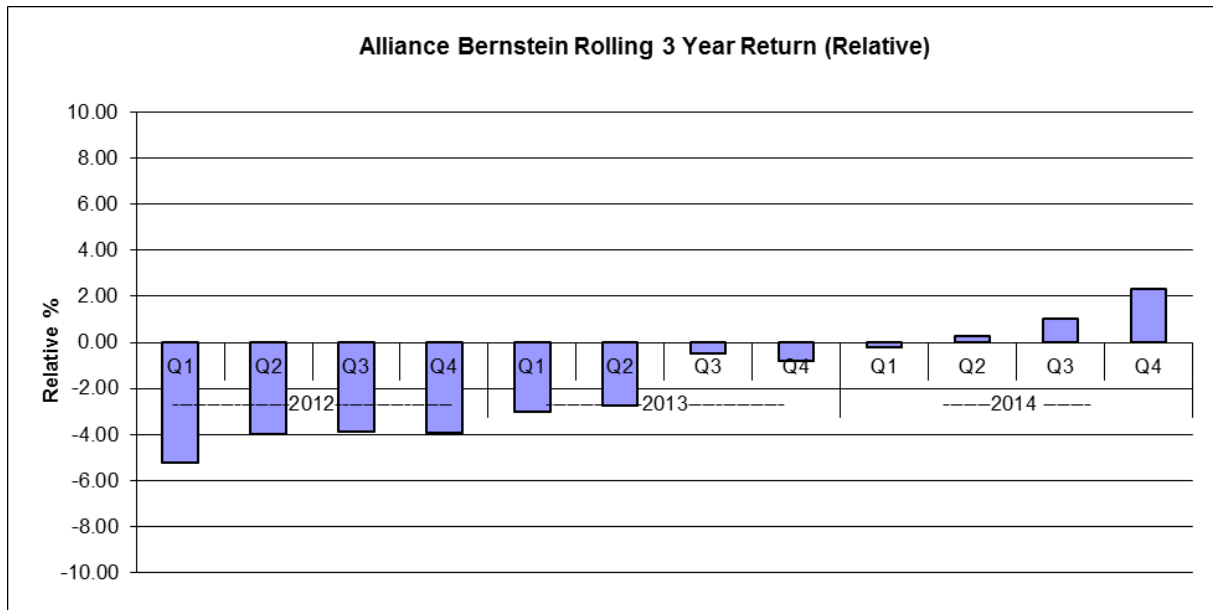


Variance by manager from asset allocation benchmark

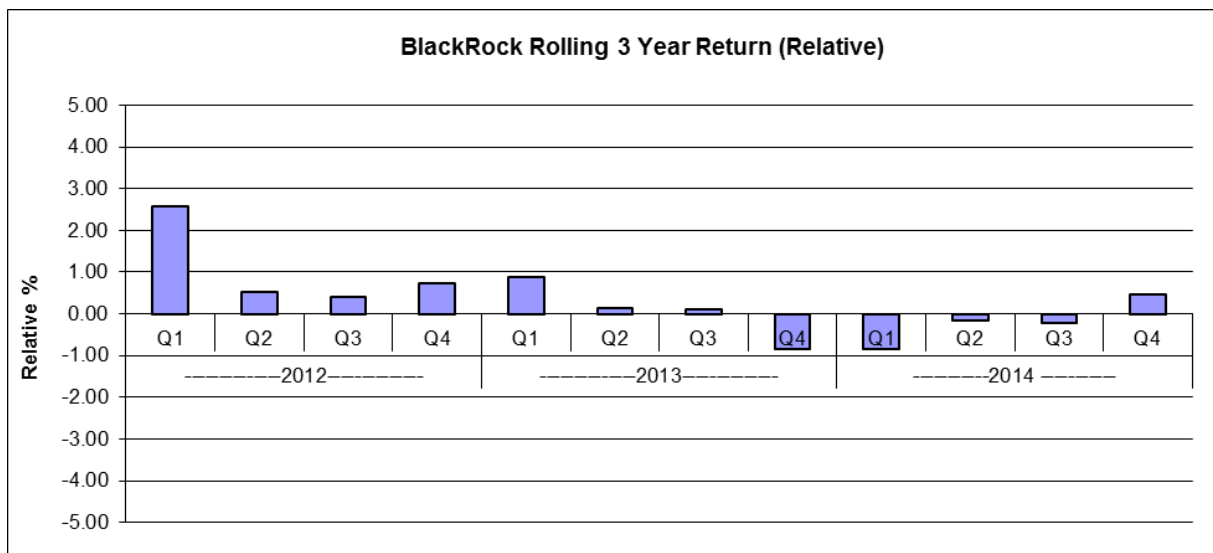


# MANAGER PERFORMANCE

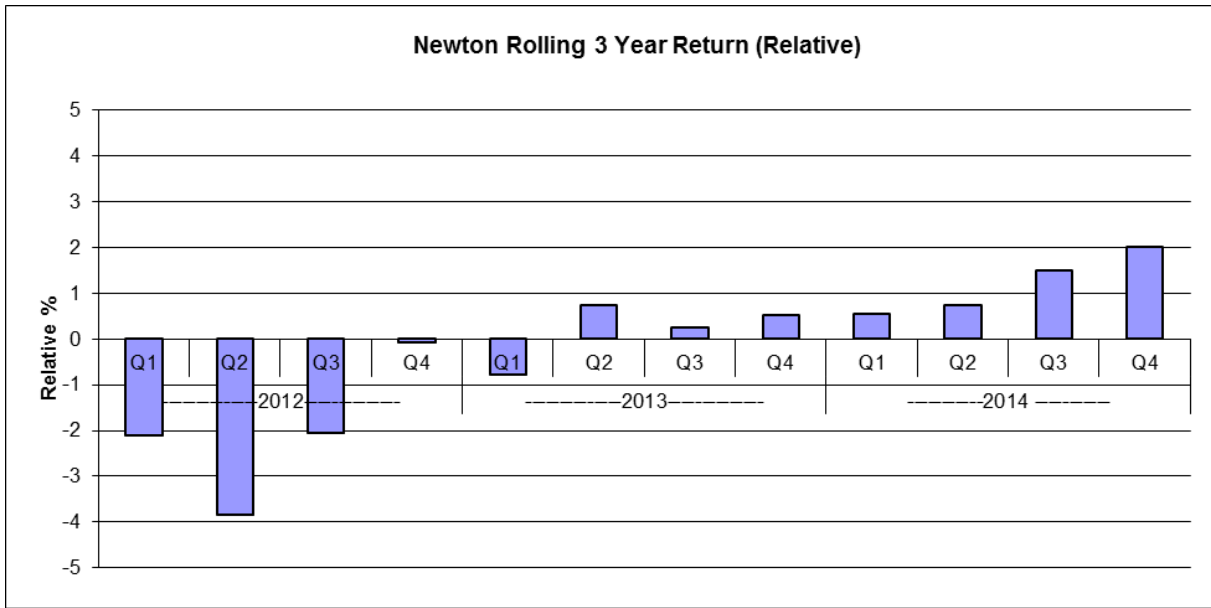
## Rolling 3 Year Performance – Alliance Bernstein



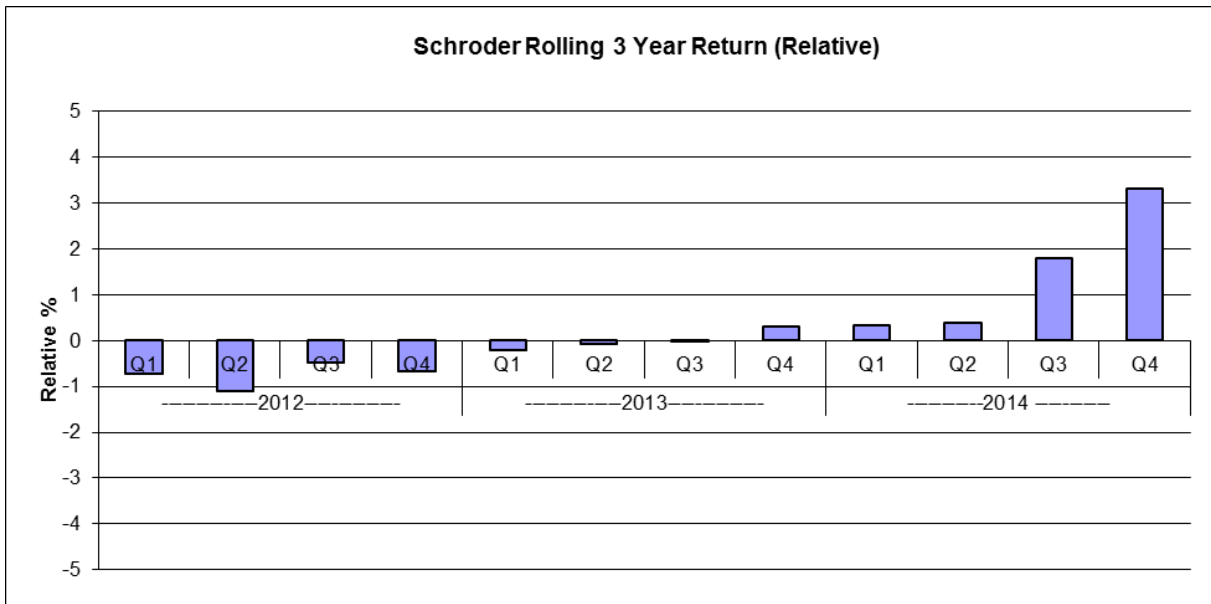
## Rolling 3 Year Performance – BlackRock



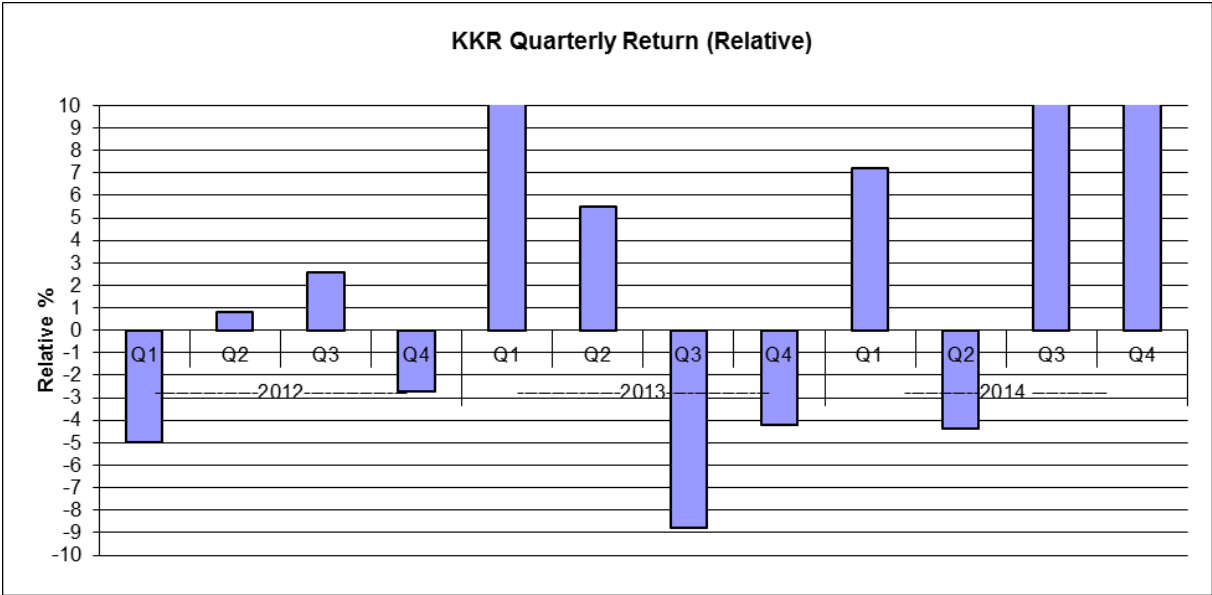
Rolling 3 Year Performance – Newton



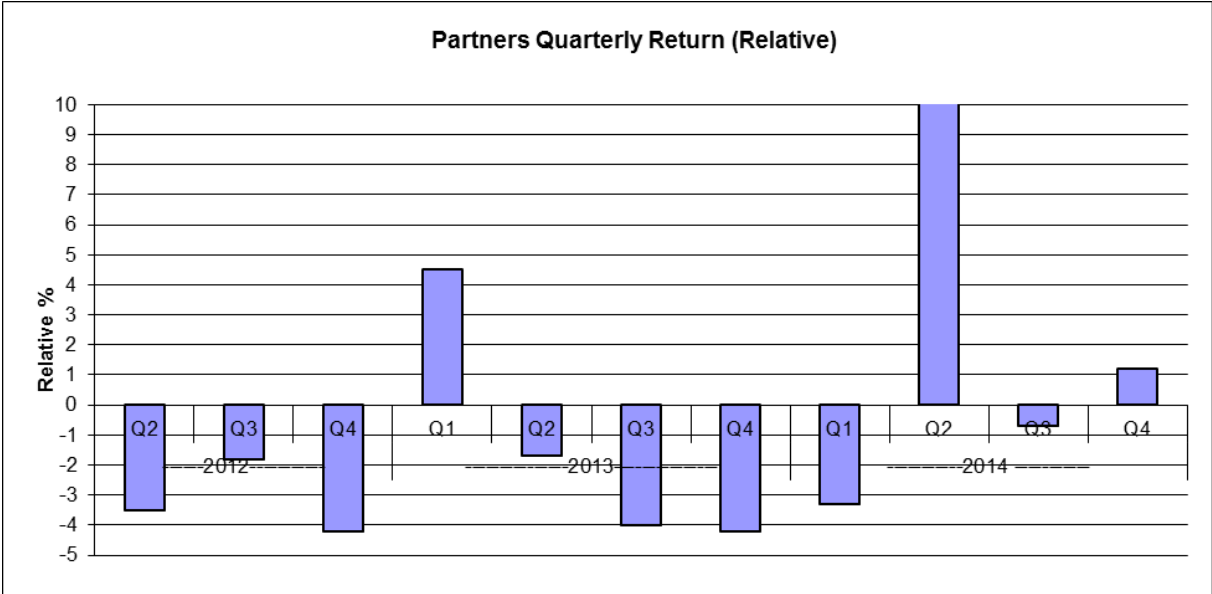
Rolling 3 Year Performance – Schroder



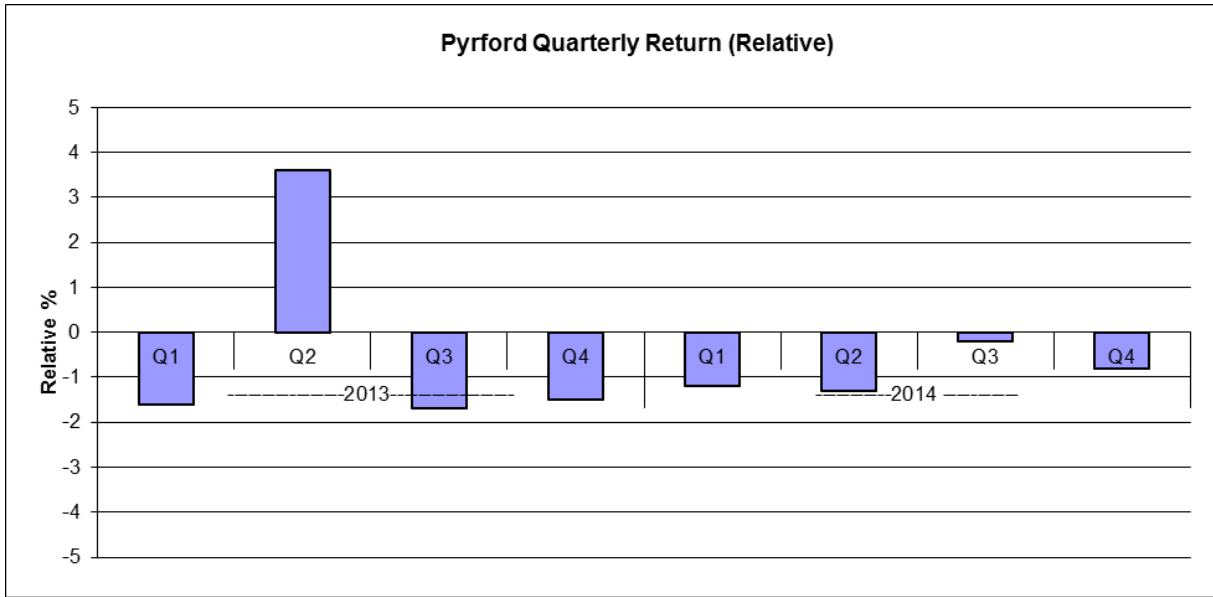
Quarterly Performance – KKR



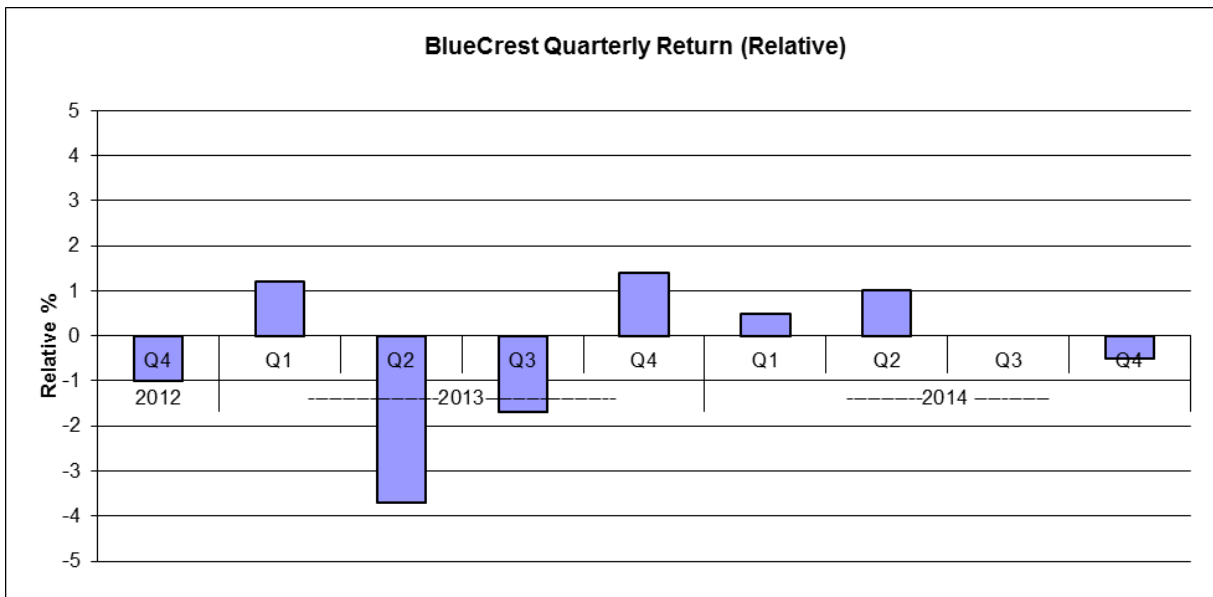
Quarterly Performance – Partners



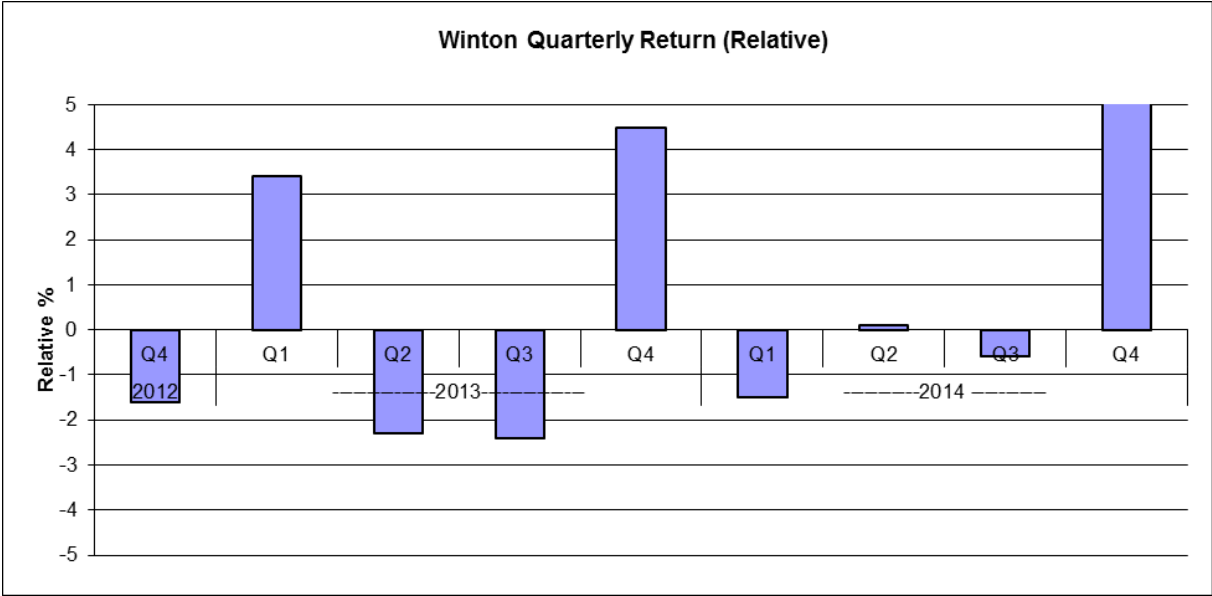
Quarterly Performance – Pyrford



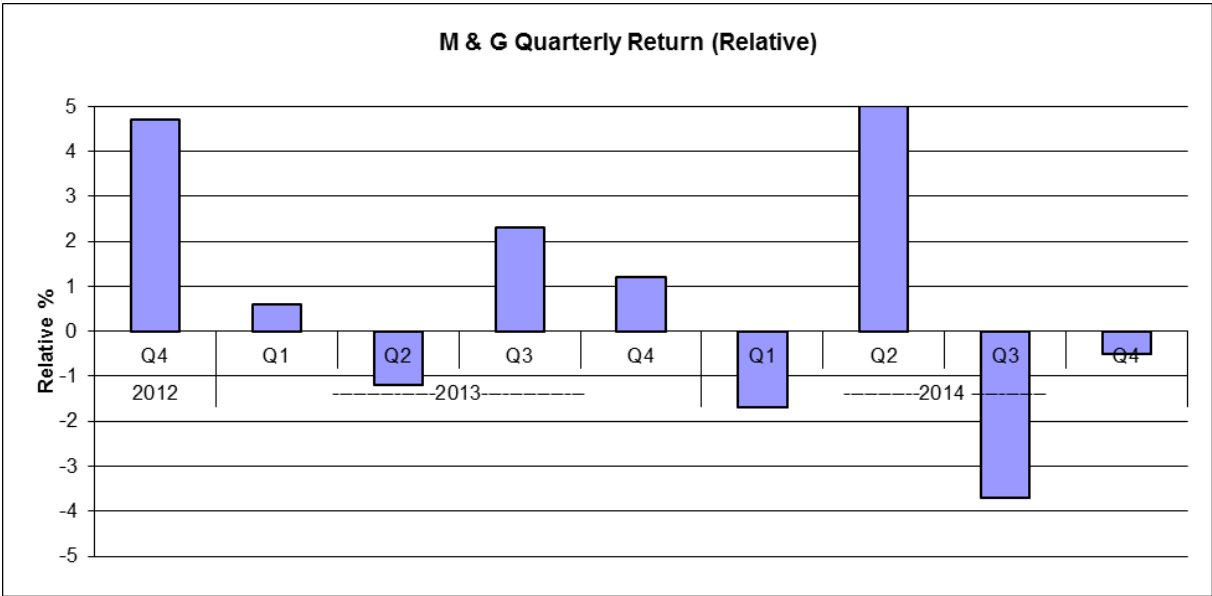
Quarterly Performance – BlueCrest



Quarterly Performance – Winton



Quarterly Performance – M & G

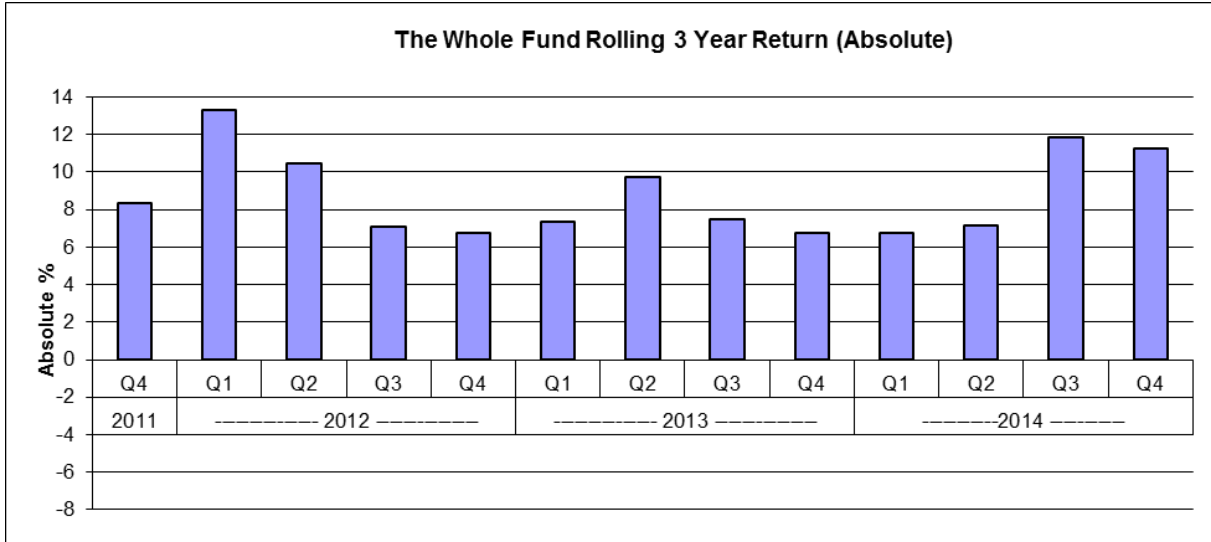


## Manager mandates and performance indices

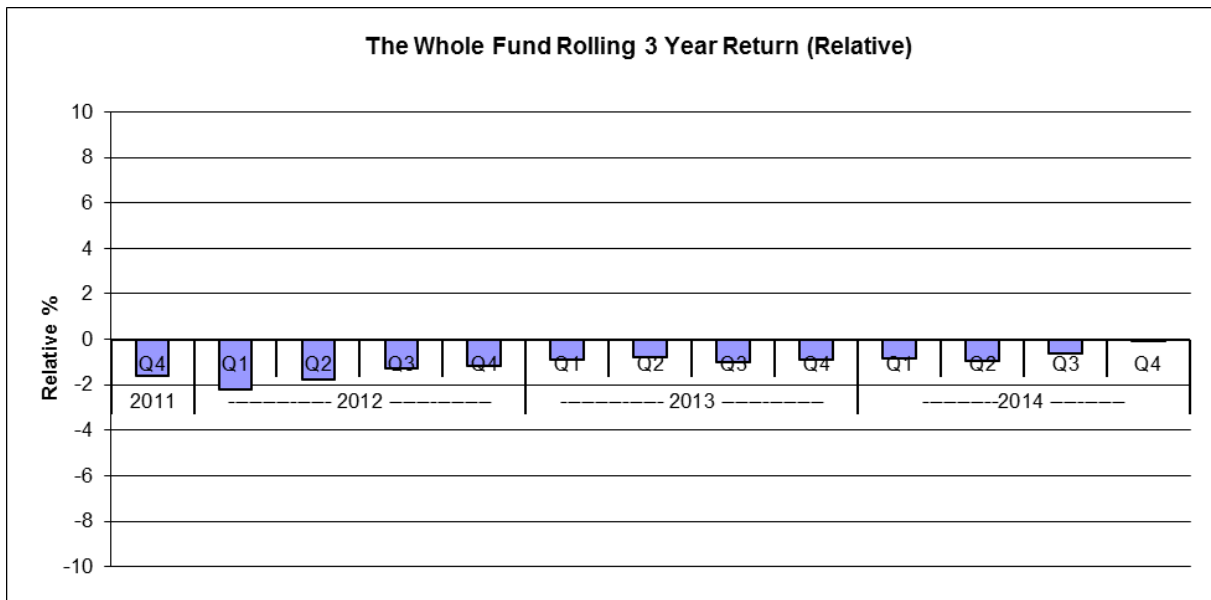
<b>Manager</b>	<b>Mandate</b>	<b>Performance Benchmark</b>
Alliance Bernstein	UK Equities	FTSE All Share + 2.5%
Blackrock	UK Equities	FTSE All Share + 2%
Bluecrest	Absolute Return	GBP 3 month LIBOR + 5% p.a.
Brookfield	Timber	8% p.a.
KKR	Infrastructure	8% p.a.
Legal & General	Multi Asset Passive	Composite
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)





## APPENDIX 6

### Top 20 Holdings: 31 December 2014

	Name	Value £'m	% of Fund
1	L&G Corporate Bond	249.7	12.1%
2	L&G North American Index Hedged	133.4	6.5%
3	L&G European Equity Index Hedged	133.0	6.4%
4	Pyrford Global Mutual Fund	114.4	5.5%
5	L&G Over 5 years Indexed Linked Gilts	88.5	4.3%
6	L&G Global Emerging Markets	61.4	3.0%
7	L&G Asia Pacific Equity Index	53.0	2.6%
8	L&G Over 15 years Gilts Index	46.1	2.2%
9	L&G Emerging Market Government Bond	40.5	2.0%
10	Winton Futures Fund Class D Mutual	39.5	1.7%
11	BlueCrest Limited	35.1	1.7%
12	KKR Infrastructure	34.2	1.7%
13	M & G Debt Opportunities Fund	33.4	1.6%
14	L&G Japan Equity Index Hedged	32.2	1.6%
15	Royal Dutch Shell Plc	28.6	1.4%
16	British American Tobacco Plc	24.2	1.2%
17	BlackRock UK Property Fund	23.8	1.2%
18	Schroders UK Property Fund	22.9	1.1%
19	Standard Life Pooled Property Fund	21.3	1.0%
20	Legal & General Managed Property	19.9	1.0%

### Top 10 Holdings as at 31 December 2014

