Suffolk County Council

Agenda Item 6

Suffolk Pension Fund Committee

Report Title:	Investment Performance – Quarter ending 31 March 2015
Meeting Date:	3 June 2015
Chairman:	Cllr Peter Bellfield
Director:	Geoff Dobson, Director of Resource Management Tel. 01473 264347
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Brief summary of report

1. This report provides a summary of the assets of the Suffolk Pension Fund and their current allocation against the Fund's long term investment strategy, together with the investment performance for the quarter ended 31 March 2015.
2. The total size of the Fund as at 31 March 2015 was £2.187bn, an increase of around £122m from the valuation reported at 31 December 2014.
3. The overall investment return of the Fund in the quarter was positive at 5.2%, 0.1% ahead of the benchmark return of 5.1%. The relative performance is mainly attributed to our asset allocation.
4. The annual return of 14.6% is ahead of the benchmark by 0.7%. This can be attributed to good stock selection in quarter 3 and by good asset allocation in quarter 4.
5. The Fund's absolute return over a rolling three year period is 11.2%, above the benchmark by 0.5%. The Committee implemented a number of changes to its investment strategy in 2012 and again in 2014, to address the under performance of the fund, the outcomes of which are now taking effect with regards to the longer term performance of the Fund.

Action recommended

6. The Committee is asked to consider the contents of the report in conjunction with the reports from Hymans Robertson and Mark Stevens in viewing the Fund's performance in the Quarter to 31 March 2015, and the future outlook for the Fund.

Reason for recommendation

7. The Committee is required to review the overall investment performance of the Fund and that of its individual Fund Managers on a quarterly basis.

Alternative options

8. None

Main body of report

Financial Position of the assets classes against benchmark

9. 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.).

10. The table below 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	380.7	17.3	16.0	+/-5%
Overseas Equities	758.6	34.6	29.0	+/-5%
Total listed equities	**1,139.3**	**51.9**	**45.0**	+/-5%
UK Corporate Bonds	262.4	12.0	15.5	+/-3%
UK Gilts	43.3	2.0	0.0	+/-2%
UK Index-linked Gilts	91.4	4.2	4.0	+/-2%
Emerging Market Debt	40.7	1.9	2.0	+/-1%
Total Bonds	**437.8**	**20.1**	**21.5**	+/-3%
Private Equity	67.3	3.1	4.0	+/-2%
Property	212.7	9.8	10.0	+/-3%
Absolute Return	210.3	9.6	10.0	+/-3%
Infrastructure	46.9	2.1	5.0	+/-2%
Timber	6.4	0.3	2.0	+/-1%
Distressed Debt	37.0	1.7	2.0	+/-1%
Total Alternatives	**580.6**	**26.6**	**33.0**	+/-3%
Cash	**29.6**	**1.4**	**0.5**	+/-5%
Total	**2,187.3**	**100.0**	**100.0**	

11.

12. 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.

13. A breakdown of the cash held within the Pension Fund is set out overleaf:

Cash balances held within the Pension Fund as at 31 March 2015				
Manager	**Cash**	**Money Market**	**Deposit Account**	**Total**
	£'m	**£'m**	**£'m**	**£'m**
BlackRock	0.9	3.2	-	4.1
Brookfield	-	0.9	-	0.9
Newton	-0.7	6.6	-	5.9
KKR	2.3	1.3	-	3.6
Schroders	0.1	11.9	-	12.0
Internal Cash	-	-	3.1	3.1
Total	**2.6**	**23.9**	**3.1**	**29.6**

14. The internal cash of £3.1m is held in a Lloyds Bank deposit account. This is lower than our normal target of £5m, but this was due to a timing difference on receipt of contributions. This was received on 2 April, returning the cash balance above the £5m level, to £6.7m.

15. The cash figure consists of £0.2m held in cash at HSBC and £2.2m held in a hedging fund by KKR. The difference of £0.2m relates to purchases and sales awaiting settlement.

16. 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.

17. HSBC offers a similar facility for the Euro liquidity fund, however, as interest rates offered are currently negative we do not make use of the service..

18. At 31 March HSBC held £8.8m of cash in Money Market Funds, well below the maximum £25m treasury management limit the Committee has agreed.

19. Schroders have currently a higher than normal cash balance of £11.9m. This came from realising some Property Units during December. Schroders have committed the cash to purchase other units in Property Unit Trusts, and these will be funded over the next couple of months. The money is currently being held in a Schroder Offshore Cash Fund.

20. Blackrock operate their own money market fund, Institutional Cash Series which has their surplus cash balance of £3.2m invested

21. An additional investment was made with Pyrford of £9m in March to reduce the cash balance held by the Pension Fund and to rebalance the holdings within the Fund. This was made up of a £4.7m distribution returned by M&G, £0.4m held in cash with Alliance Bernstein and £3.9m in surplus cash held by the Pension Fund.

22. 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

23. The actual valuation of the investments held by each fund manager as at March 2015 against the long term benchmarks are shown below:

Manager	Benchmark Allocation by Manager		
	Holdings £'m	Actual %	Long-term %
BlackRock	199.2	9.1	15.5
BlueCrest	39.1	1.8	2.0
Brookfield	7.3	0.3	2.0
CRIL	0.1	0.0	-
KKR	39.1	1.8	2.5
Legal & General	1,062.2	48.6	29.0
M&G	37.0	1.7	11.0
Newton	325.6	14.9	13.0
Pantheon	30.7	1.4	2.0
Partners Group	11.5	0.5	2.5
Pyrford	126.6	5.8	6.0
Schroders	224.6	10.3	10.0
Wilshire	36.5	1.7	2.0
Winton	44.6	2.0	2.0
Internal Cash	3.1	0.1	0.5
Total	**2,187.3**	**100.0**	**100.0**

24. 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.

25. Legal & General shows an overweight position in the table because the active bond mandates to be held by M&G £175m and Blackrock £125m are to be funded from the Legal & General corporate bond holdings in Quarter 1 of 2015/16.

26. The private equity holdings of Wilshire and Pantheon are currently 3.1% of the Fund. 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. The Committee is making a decision as to whether to invest further in private equity as part of agenda item 15.

27. 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

28. 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.

29. 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 Mar 15	12 months to Mar 15	5 Years (p.a.)
BlackRock	0.8	2.6	0.8
BlueCrest	1.2	1.8	-
Brookfield	21.4	26.8	-
KKR	7.1	25.5	-
Legal & General	-0.3	-0.2	-0.3
M&G	1.2	1.7	-
Newton	1.5	1.8	0.7
Partners Group	-8.6	7.4	-
Pyrford	1.4	1.4	-
Schroders	-0.1	0.8	0.3
Winton	3.6	13.8	-

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

31. Brookfield performance figures are not yet meaningful because the first and only investment to date was made in December 2013.

32. 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.

33. 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.

34. 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)

35. **Appendix 4** shows the managers mandates and performance targets.

Overall Fund Investment Performance

36. 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 March 2015

37. 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**	**14.3**	**8.2**
Contributions and Income Received	26.1	29.9	30.5	24.7
Benefits and Expenses Paid	-26.1	-24.3	-24.2	-24.1
Net Income	**0.0**	**5.6**	**6.3**	**0.6**
Transactions with fund managers	-0.4	-0.3	-12.5	-5.7
Cash Flow in the Quarter	**-0.4**	**5.3**	**-6.1**	**-5.1**
Cash in Hand C/fwd	**9.0**	**14.3**	**8.2**	**3.1**

38. During the third quarter of the financial year, Partners received £1.8m for capital calls raised as part of their investment programme. Pyrford received £2m in January and £9m in March as part of the rebalancing exercise.

39. The main distributions received in the quarter consisted of £1.4m from Wilshire, £1.5m from Pantheon and £4.7m from M&G.

Pension Fund Top Holdings

The top 20 holdings by the Pension Fund are set out in **Appendix 6**. These holdings in total are worth £1,415.7m and represent 64.7% of the Pension Fund as at 31 March 2015. 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.

Markets and Exchange Rates

40. Market closing positions for the major equity markets are set out below:

Index	**Market Index Value as at:**			
	Mar-13	**Mar-14**	**Dec-14**	**Mar-15**
FTSE	6,412	6,598	6,570	6,773
Dow Jones	14,910	16,458	17,983	17,776
Dax	7,959	9,556	9,806	11,966

41. 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**	**Dec 14**	**Mar 15**
Dollar	1.52	1.66	1.62	1.48
Euro	1.19	1.21	1.28	1.38

Sources of further information

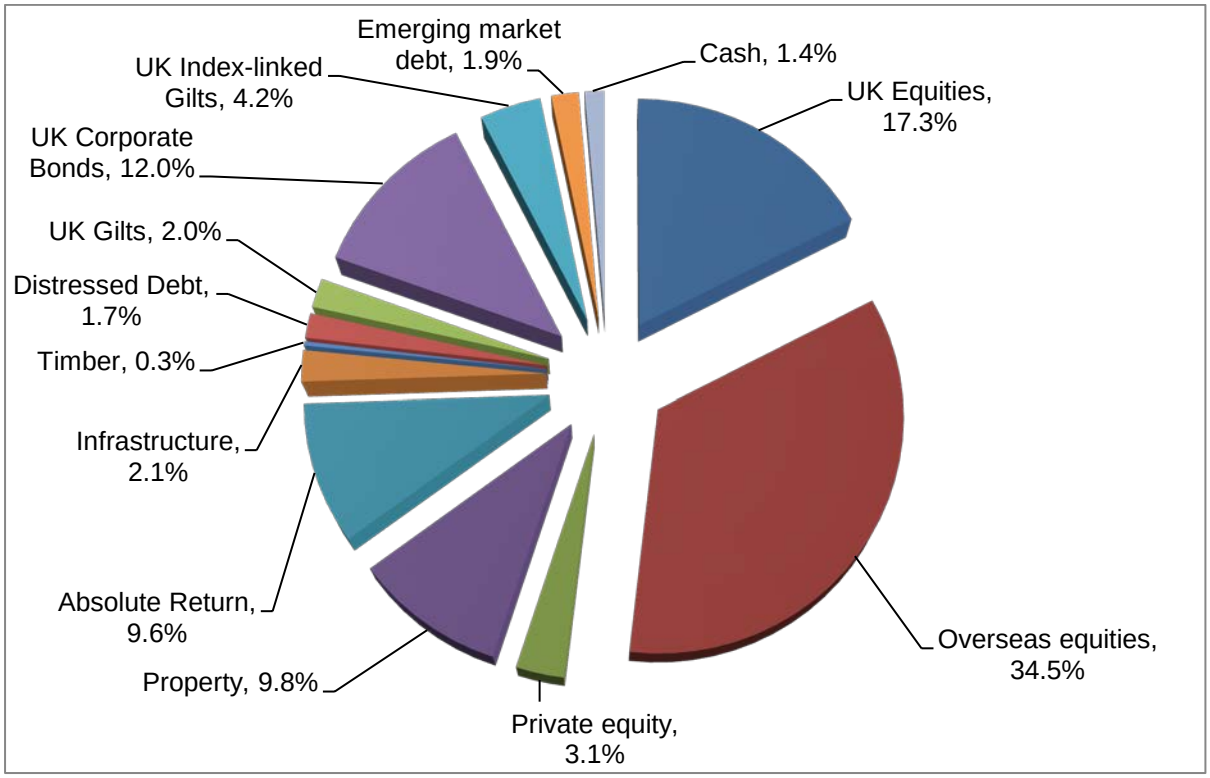
42. Quarterly Performance Report to 31 March 2015 – State Street Investment Analytics (SSIA)

APPENDIX 1

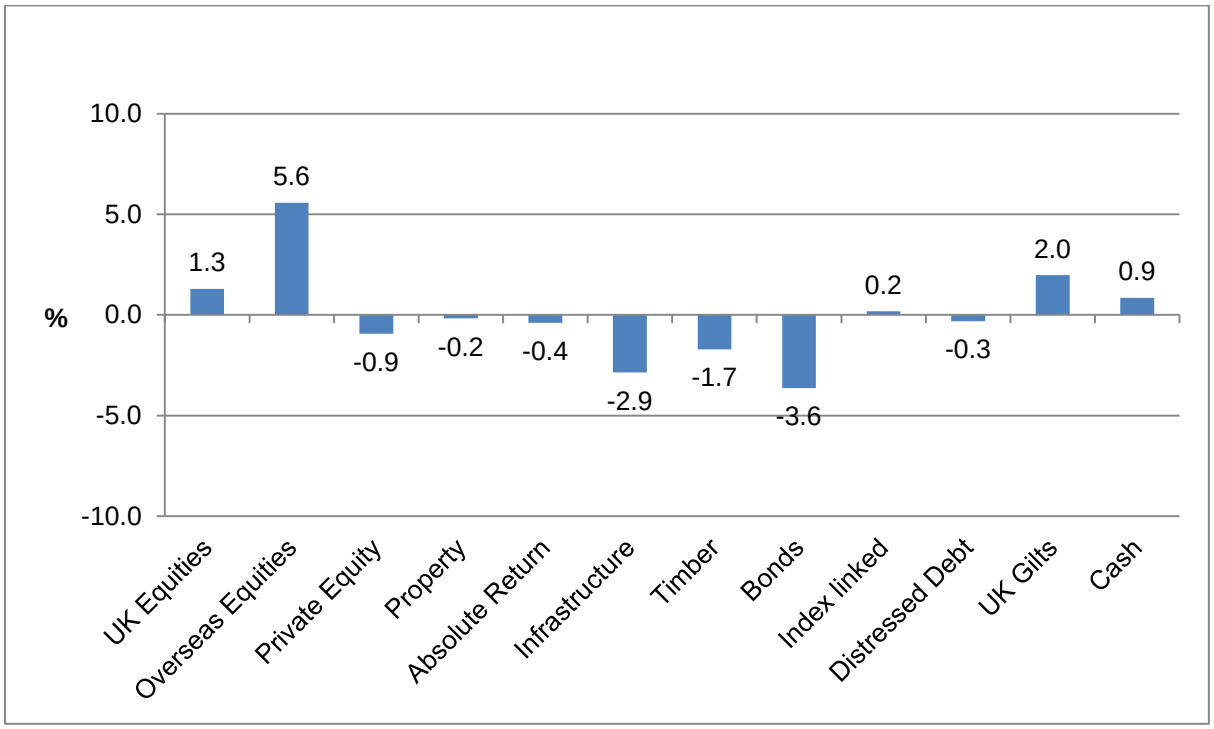
ASSET ALLOCATION

Portfolio Valuation at 31 March 2015

Asset allocation by asset class



Variance of asset allocation from benchmark by asset class

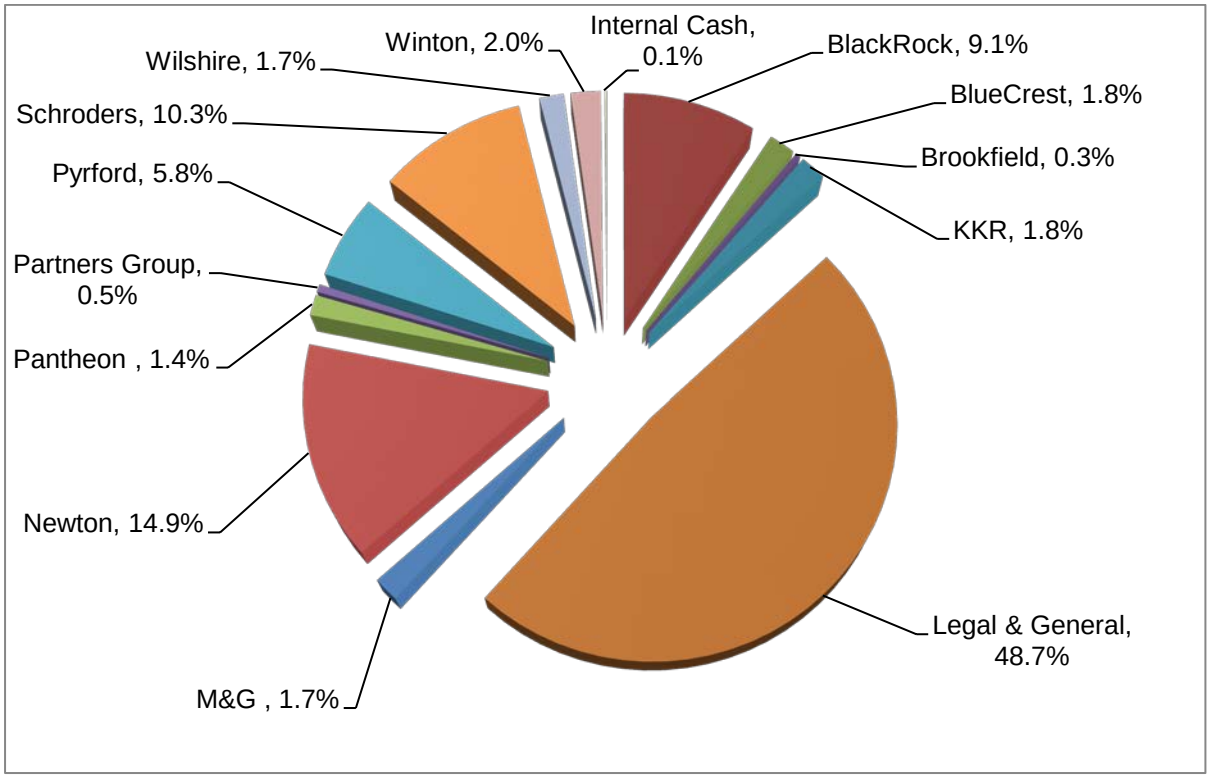


APPENDIX 2

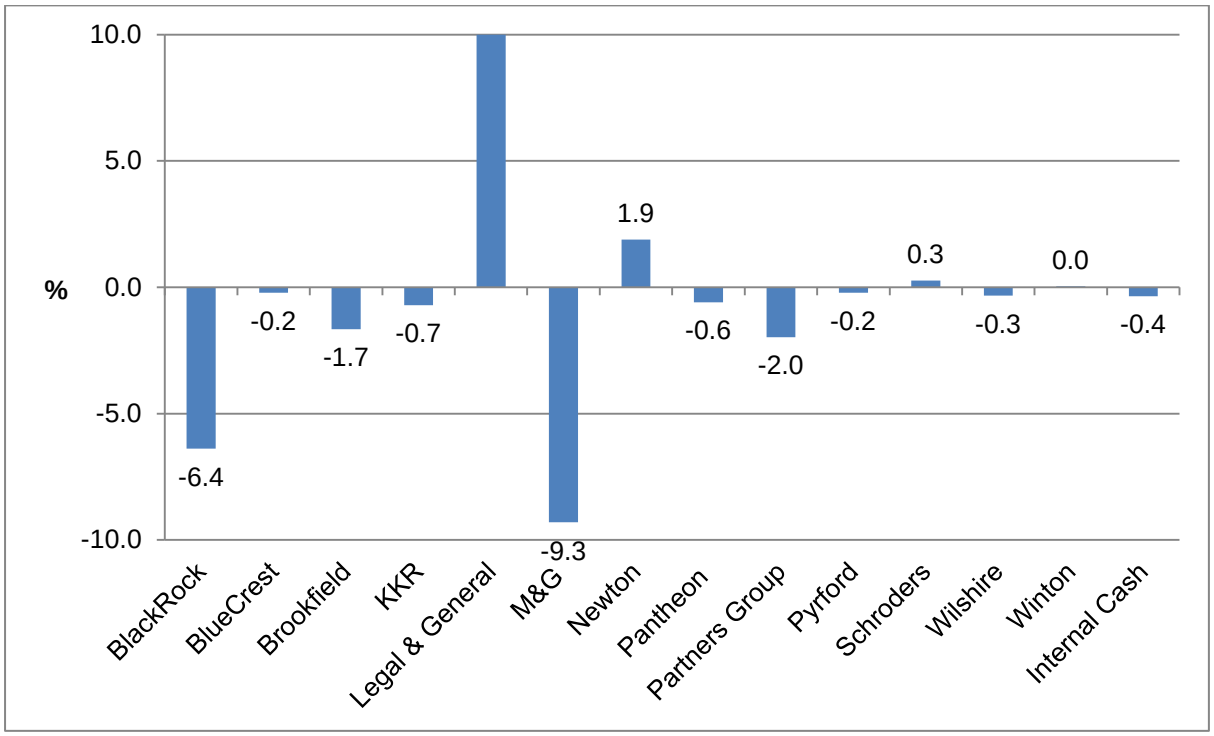
ASSET ALLOCATION

Portfolio Valuation at 31 March 2015

Asset allocation by manager



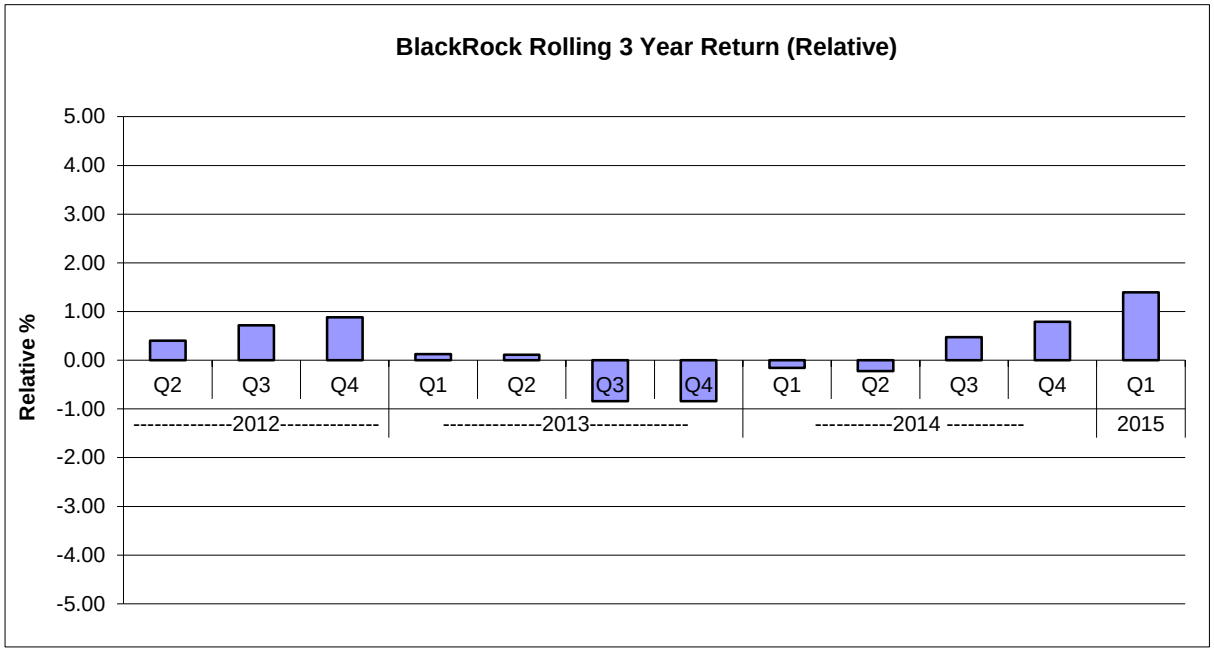
Variance by manager from asset allocation benchmark



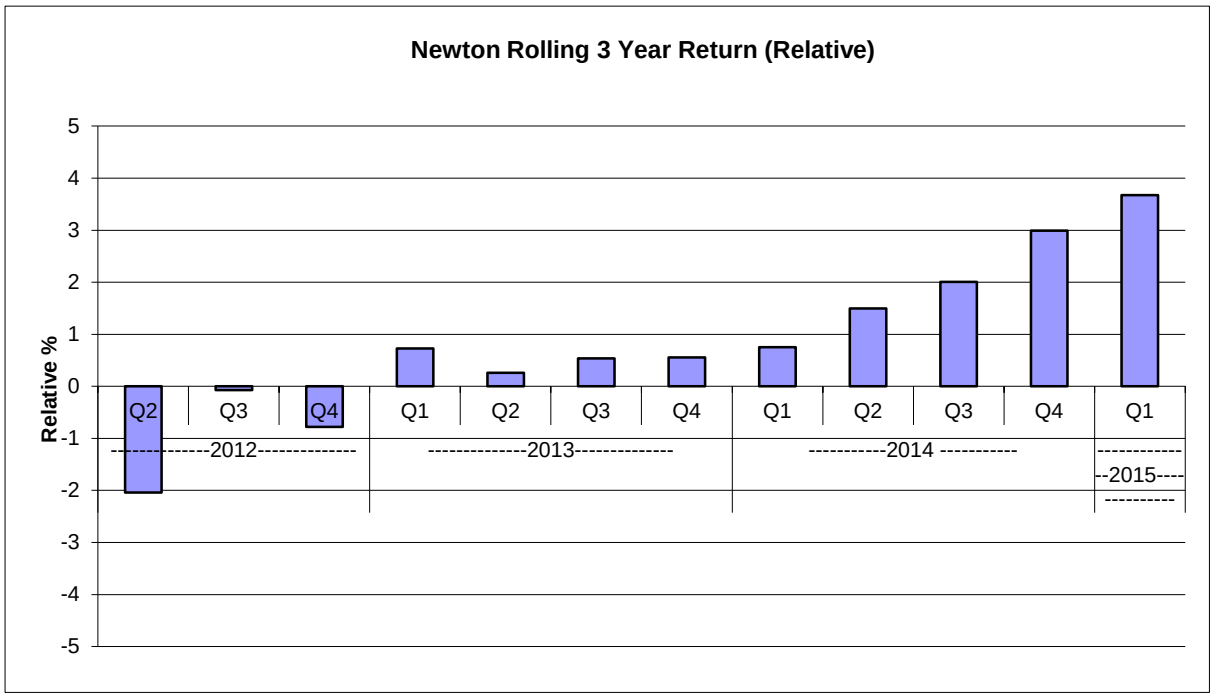
APPENDIX 3

MANAGER PERFORMANCE

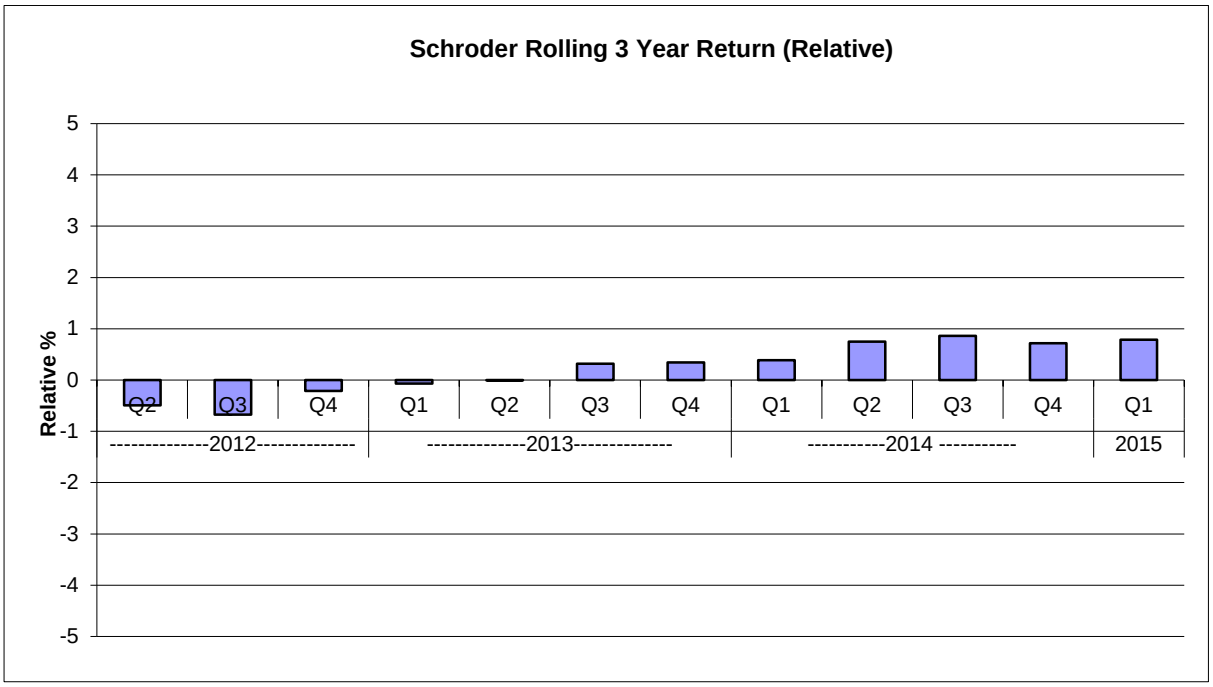
Rolling 3 Year Performance – BlackRock



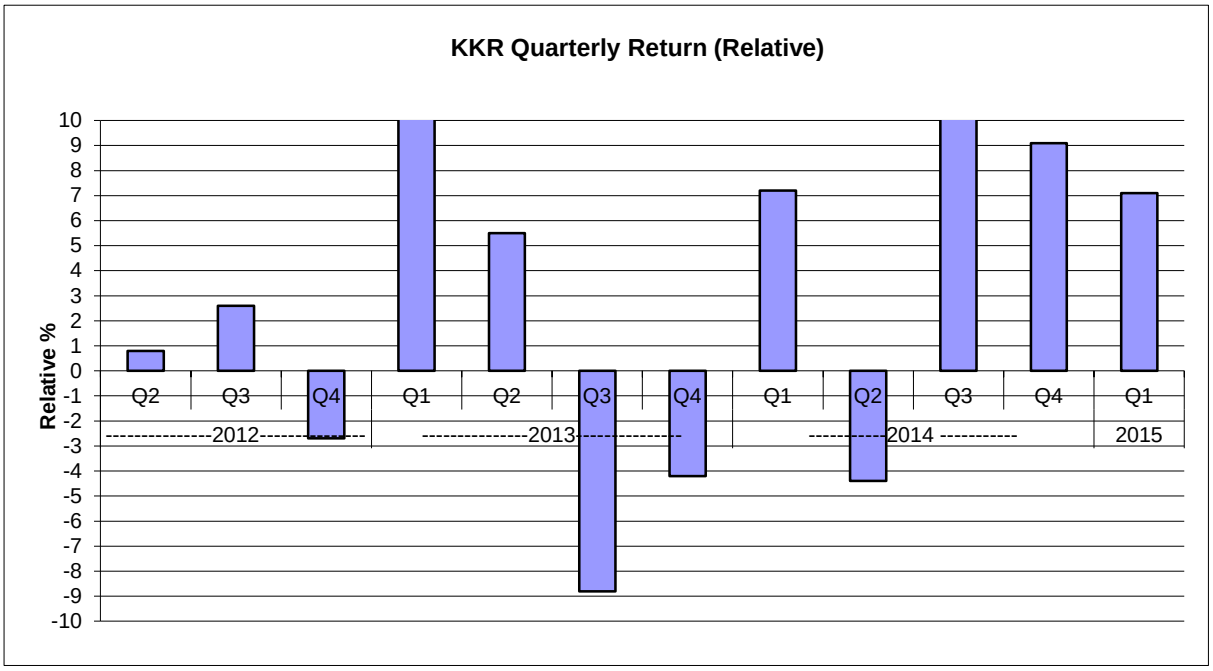
Rolling 3 Year Performance – Newton



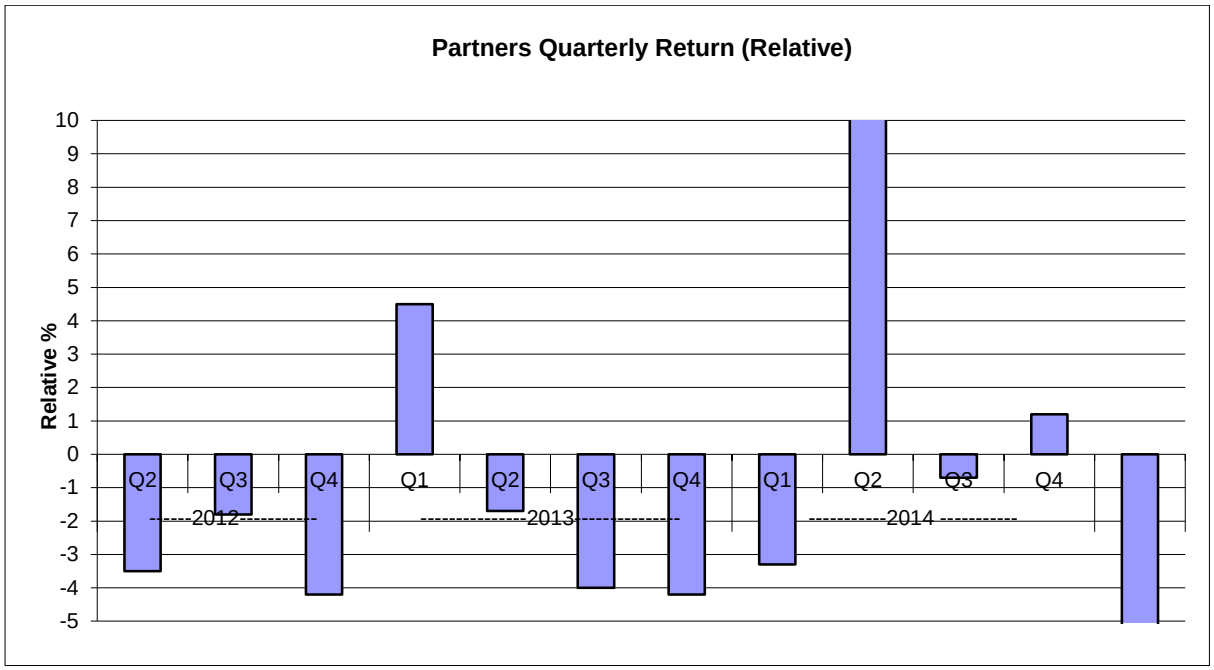
Rolling 3 Year Performance – Schroders



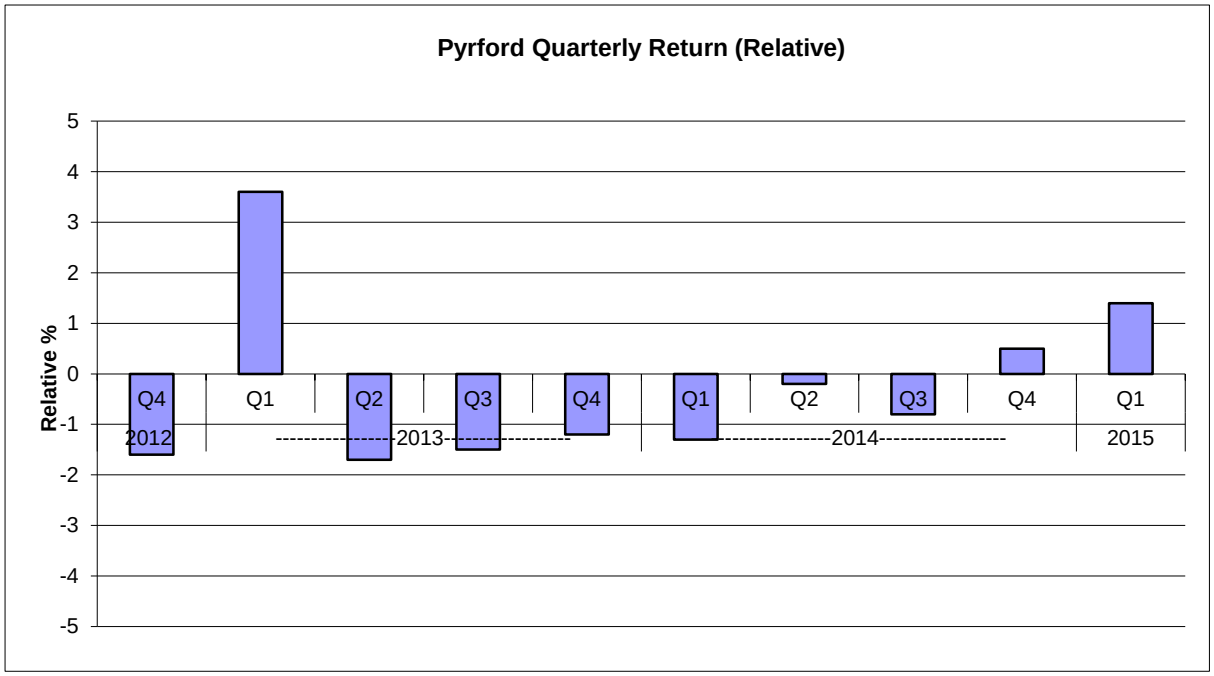
Quarterly Performance – KKR



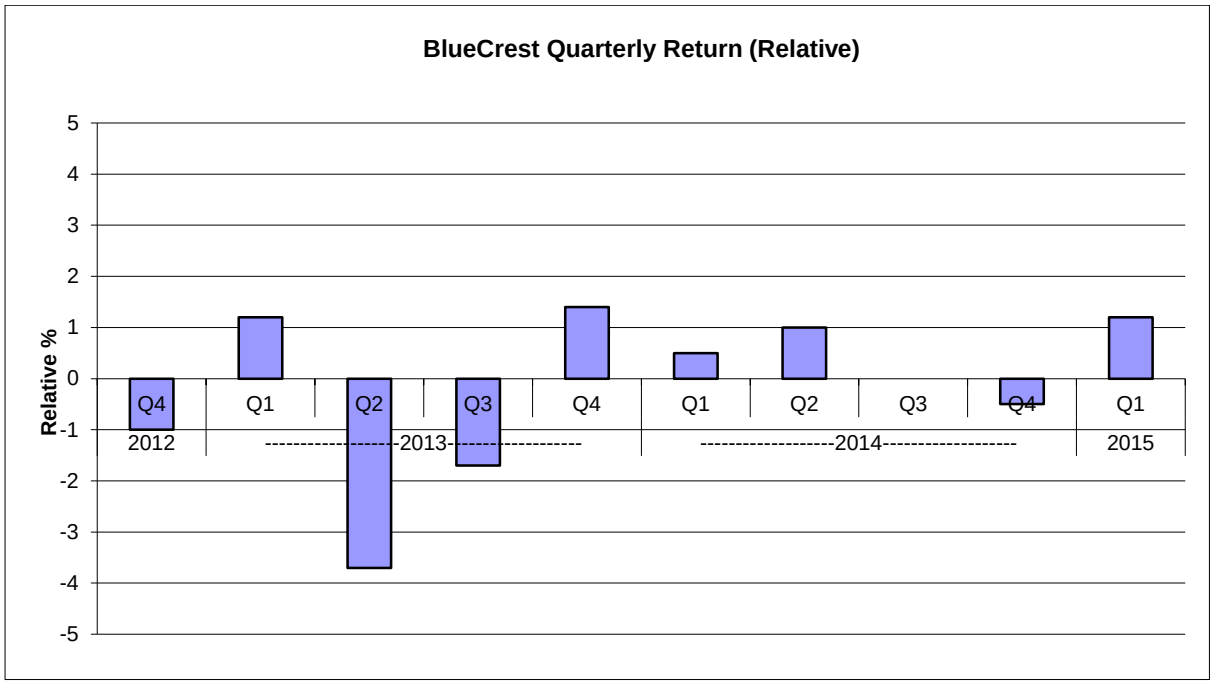
Quarterly Performance – Partners



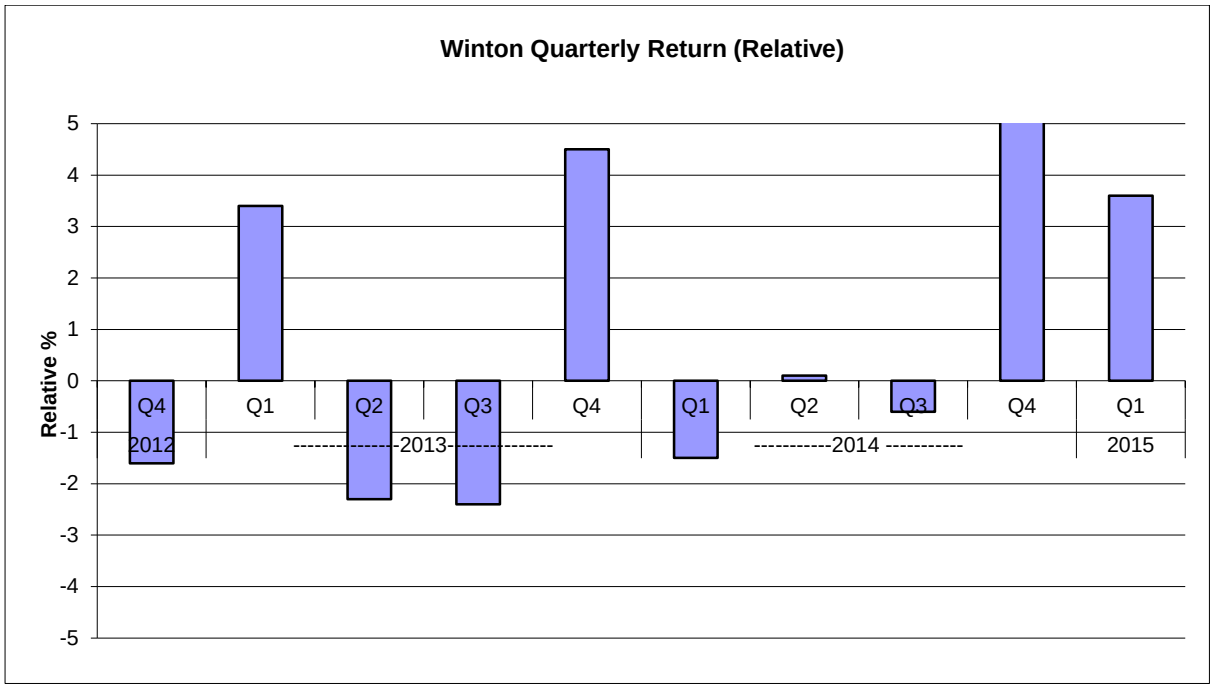
Quarterly Performance – Pyrford



Quarterly Performance – Bluecrest



Quarterly Performance – Winton



Appendix 4

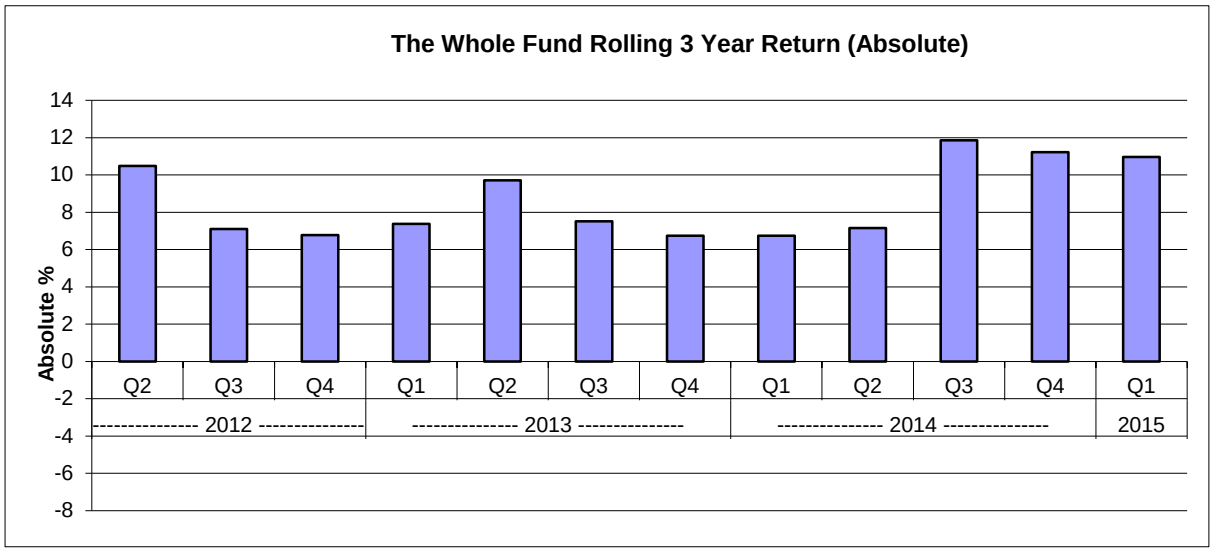
Manager mandates and performance indices

Manager	**Mandate**	**Performance Benchmark**
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.

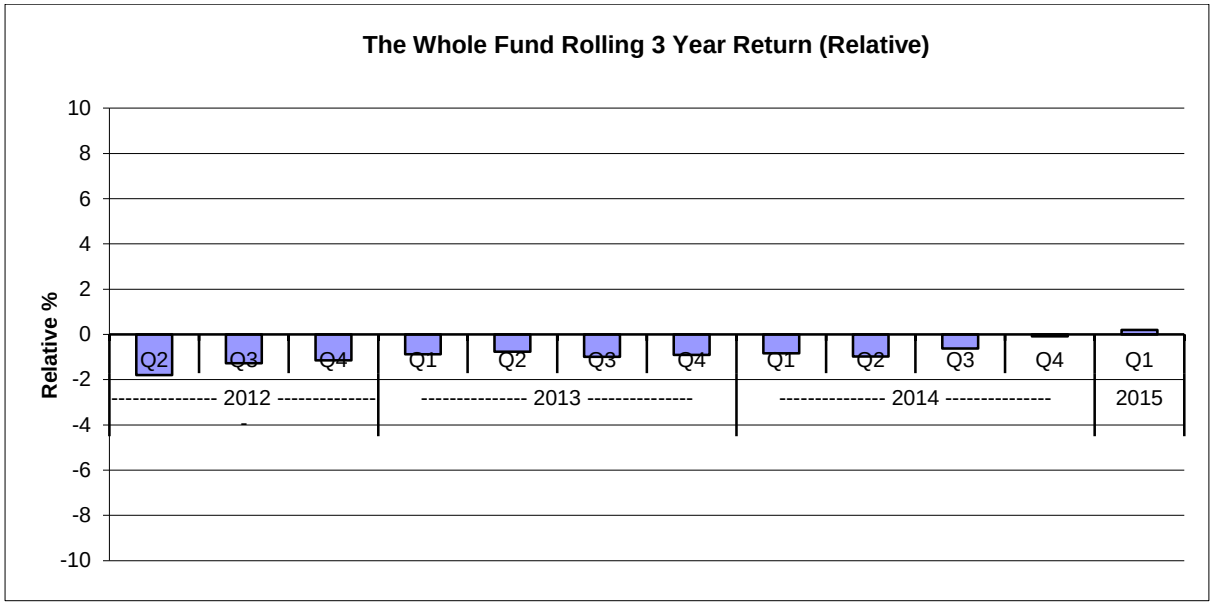
APPENDIX 5

FUND PERFORMANCE

The Whole Fund Rolling 3 Year Performance (Absolute)

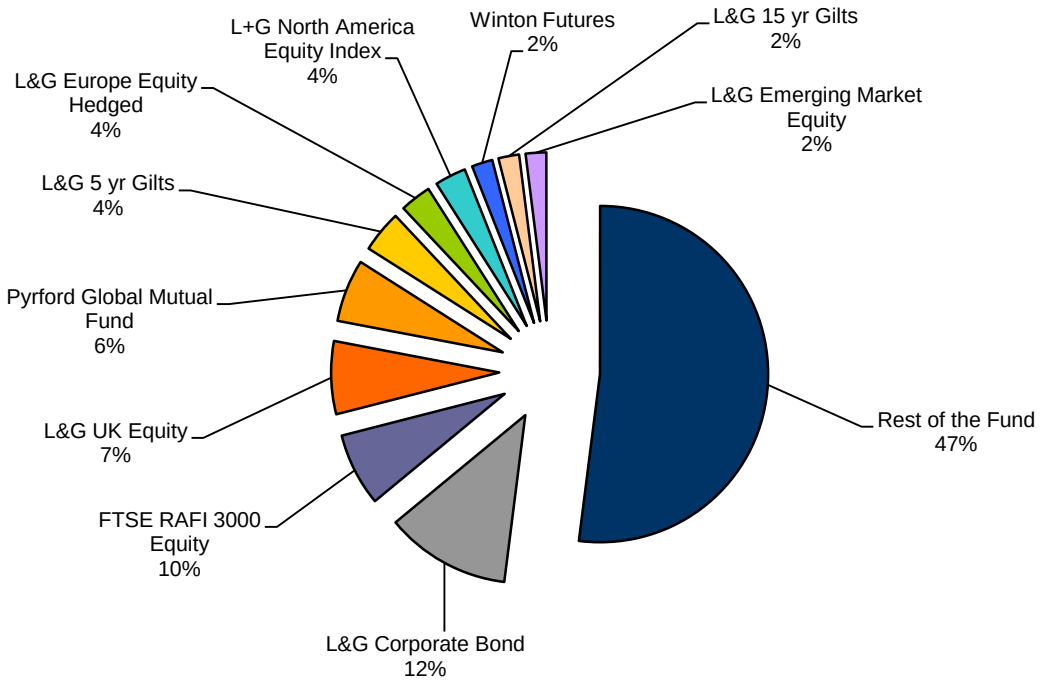


The Whole Fund Rolling 3 Year Performance (Relative)



APPENDIX 6

Top 20 Holdings: 31 March 2015

	Name	Value £'m	% of Fund
1	L&G Corporate Bond	262.4	12.0%
2	L&G FTSE RAFI 3000 Equity	219.9	10.1%
3	L&G UK Equity Index	157.1	7.2%
4	Pyrford Global Mutual Fund	126.6	5.8%
5	L&G Over 5 years Indexed Linked Gilts	91.4	4.2%
6	L&G European Equity Index	83.1	3.8%
7	L&G North America Equity	81.6	3.7%
8	Winton Future Fund Class D	44.6	2.0%
9	L&G Over 15 years Gilts Index	43.3	2.0%
10	L&G Emerging Market Equity	40.7	1.9%
11	BlueCrest Limited	39.1	1.8%
12	KKR Infrastructure	35.4	1.6%
13	M & G Debt Opportunities Fund	29.4	1.3%
14	L&G Asia Pacific Equity	25.8	1.2%
15	L&G Japan Equity Index Hedged	25.5	1.2%
16	BlackRock UK Property Fund	24.1	1.1%
17	Schroders UK Property Fund	23.5	1.1%
18	Legal & General Managed Property	23.2	1.1%
19	Standard Life Pooled Property Fund	21.8	1.0%
20	Schroders Real Income Fund	17.2	0.8%

Top 10 Holdings as at 31 March 2015