

Suffolk Pension Fund Committee

Report Title:	Investment Performance – Quarter ending 30 June 2015
Meeting Date:	24 September 2015
Chairman:	Cllr Peter Bellfield
Director:	Geoff Dobson, Director of Resource Management Tel. 01473 264347
Author:	Paul Finbow, Corporate Finance Specialist Tel. 01473 265288

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 30 June 2015. Also included is a review of each investment manager and their individual performance and a summary of the most recent meeting with some of the managers.
2. The total size of the Fund as at 30 June 2015 was £2.144bn, a decrease of around £43m from the valuation reported at 31 March 2015.
3. The overall investment return of the Fund in the quarter was -2.2%, 0.7% behind the benchmark return of -1.5%. The annual return of 10.4% is ahead of the benchmark by 1.1%.
4. The Fund's absolute return over a rolling three year period is 11.1%, above the benchmark by 0.3%.

5. Action recommended

6. The Committee is asked to consider the contents of the report to review the Fund's performance in the Quarter to 30 June 2015.
- 7.

Reason for recommendation

8. 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

9. None

Main body of report

Financial Position of the asset classes against benchmark

10. 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.).
11. 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	378.0	17.6	16.0	+/-5%
Overseas Equities	721.0	33.7	29.0	+/-5%
Total listed equities	1,099.0	51.3	45.0	+/-5%
Corporate Bonds	298.9	13.9	15.5	+/-3%
UK Index-linked Gilts	88.4	4.1	4.0	+/-2%
Emerging Market Debt	38.1	1.8	2.0	+/-1%
Total Bonds	425.4	19.8	21.5	+/-3%
Private Equity	66.2	3.1	4.0	+/-2%
Property	219.2	10.3	10.0	+/-3%
Absolute Return	203.7	9.5	10.0	+/-3%
Infrastructure	45.8	2.1	5.0	+/-2%
Timber	6.9	0.3	2.0	+/-1%
Distressed Debt	40.7	1.9	2.0	+/-1%
Total Alternatives	582.5	27.2	33.0	+/-3%
Cash	37.1	1.7	0.5	+/-5%
Total	2144.0	100.0	100.0	

12. The Fund continues to be overweight in overseas equities and alternatives continue to be underweight whilst the infrastructure and timber mandates are still drawing down capital. The charts in **Appendix 1** show the Fund's asset allocation and the variance against the long term benchmark.
13. Reinvestment into the private equity programme was agreed at the 3 June 2015 committee meeting and is due to get underway in September 2015.
14. A breakdown of the cash held within the Pension Fund is set out overleaf:

Cash balances held within the Pension Fund as at 30 June 2015				
Manager	Cash	Money Market	Deposit Account	Total
	£'m	£'m	£'m	£'m
BlackRock	0.2	6.1	-	6.3
Brookfield	-	1.0	-	1.0
KKR	2.2	1.8	-	4.0
Newton	0.8	5.9	-	6.7
Pantheon	0.2	1.2	-	1.4
Schroders	1.3	10.8	-	12.1
Wilshire	0.2	1.8	-	2.0
Internal Cash	-	-	3.6	3.6
Total	4.9	28.6	3.6	37.1

15. The internal cash of £3.6m is held in a Lloyds Bank deposit account. This is lower than the target of £5m, but this is due to a timing difference on the receipt of the Suffolk County Council contributions since the introduction of the new payroll system.
16. The cash figure consists of £2.2m held in a hedging fund by KKR and £2.7m held in cash at HSBC, this includes a balance of £1.3 m held by Schroders which had just missed the money sweep cut off time, £0.9m relating to purchases and sales awaiting settlement and £0.5m held in currencies which a money market fund is not held for but the balance does earn a small credit interest.
17. 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.
18. 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..
19. At 31 March HSBC held £12.9m of cash in Money Market Funds, well below the maximum £25m treasury management limit the Committee has agreed.
20. Schroders have a higher than normal cash balance of £12.1m. This came from realising some property units during December 2014. Schroders have committed £16.3m, of which £6.4m is expected to be called in September. £9.6m of this balance is currently being held in a Schroder Offshore Cash Fund.
21. Blackrock operate their own money market fund, Institutional Cash Series, which has their surplus cash balance of £6.1m invested
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.
23. During the first quarter of the financial year, Partners received £1m and M&G £1.9m for capital calls as part of their investment programme, this was funded from the cash held in the Pension Fund bank account.

24. The main distributions received in the quarter consisted of £1.4m from Pantheon, £2.2m from Wilshire and £0.5m from KKR, these receipts were paid into the respective HSBC accounts.

Cash Balances held by Suffolk County Council at 30 June 2015

25. The payments and receipts of the Pension Fund bank account for the quarter are summarised below:

Receipts and Payments 2015-16				
	Jun-15	Sep-15	Dec-15	Mar-16
	£'m	£'m	£'m	£'m
Cash in Hand B/fwd	3.2			
Contributions and Income Received	30.7			
Benefits and Expenses Paid	-27.6			
Net Income	3.1			
Transactions with fund managers	-2.7			
Cash Flow in the Quarter	0.4			
Cash in Hand C/fwd	3.6			

Financial Position of the Investment Managers against benchmark

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

Manager	Benchmark Allocation by Manager		
	Holdings £'m	Actual %	Long-term %
BlackRock	323.3	15.1	15.5
BlueCrest	38.4	1.8	2.0
Brookfield	7.9	0.4	2.0
CRIL	0.1	0.0	-
KKR	37.1	1.7	2.5
Legal & General	726.7	33.8	29.0
M&G	215.3	10.0	11.0
Newton	312.7	14.6	13.0
Pantheon	30.1	1.4	2.0
Partners Group	12.8	0.6	2.5
Pyrford	123.4	5.8	6.0
Schroders	231.4	10.8	10.0
Wilshire	39.3	1.8	2.0
Winton	41.9	2.0	2.0
Internal Cash	3.6	0.2	0.5
Total	2,144.0	100.0	100.0

27. 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.

28. The private equity holdings of Wilshire and Pantheon are currently 3.2% 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 made a decision to continue with a private equity investment with Pantheon in June 2015, the first capital calls are expected in September 2015.
29. The charts in **Appendix 2** show the Fund's asset allocation by investment manager and the variance against the long term benchmark.

Overall Fund Investment Performance

30. The 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 3**.

Investment Manager's Performance

31. The investment objectives of the Fund's investment managers' is to outperform relative to their benchmark index, typically the index for the market they are invested in. Therefore the managers' relative investment return compared to their allocated benchmark is used to assess their performance. The investment returns produced by the managers can be highly volatile in a single quarter and performance is typically assessed on a three year basis. **Appendix 4** sets out the mandates and performance benchmarks.
32. An evaluation and appraisal of each investment manager's performance for the June 2015 quarter has been produced by Hymans Robertson in **Appendix 5**.
33. On 27 August 2015, face to face meetings were held with Schroders, Blackrock, M&G, Partners and Newton to discuss their recent performance, a review of those meetings provided by Mark Stevens is in **Appendix 6**.

Markets

34. The markets of late have been highly volatile, although less so in the June 2015 quarter. An in depth review of the markets for the quarter has been produced by Hymans Robertson in **Appendix 7** covering the UK and overseas equity markets, interest rates, inflation and the credit markets.

Pension Fund Top Holdings

35. The top 10 holdings in the Pension Fund are set out overleaf. These holdings in total are worth £1.1bn, which is just over half the fund at 51.8% as at 30 June 2015.

Position	Investment	Value £'m	% of Fund
1	L&G FTSE RAFI AW 3000	208.9	9.7%
2	M&G Alpha Opportunities	174.6	8.1%
3	L&G UK Equity	154.8	7.2%
4	Blackrock FIGO	124.3	5.8%
5	Pyrford Global Mutual Fund	123.4	5.8%
6	L&G 5 year Gilts	88.4	4.1%
7	L&G Europe Equity Hedged	79.5	3.7%
8	L+G North America Equity Index	77.1	3.6%
9	Winton Futures Fund	41.9	2.0%
10	L&G 15 year Gilts	38.4	1.8%

36. The top holdings include some of the index-tracking funds held by Legal and General, the bond mandates held by Blackrock and M&G and the absolute return mandates held by Pyrford and Winton.
37. The top 10 equity shares held by the Pension Fund are set out below. These holdings in total are worth £107.4m and represent 5% of the fund.

Position	Investment	Value £'m	% of Fund
1	British American Tobacco	13.8	0.6%
2	Prudential	13.1	0.6%
3	Wolseley	11.6	0.5%
4	HSBC	11.0	0.5%
5	Apple	10.7	0.5%
6	Microsoft	10.0	0.5%
7	Royal Dutch Shell	9.8	0.5%
8	Google	9.8	0.5%
9	Toyota	8.8	0.4%
10	Express Scripts Holdings	8.8	0.4%

38. Most of these holdings are well known household names except for Express scripts holdings, which is a large pharmaceutical company in the United States that manufactures, distributes and researches drugs for worldwide distribution.

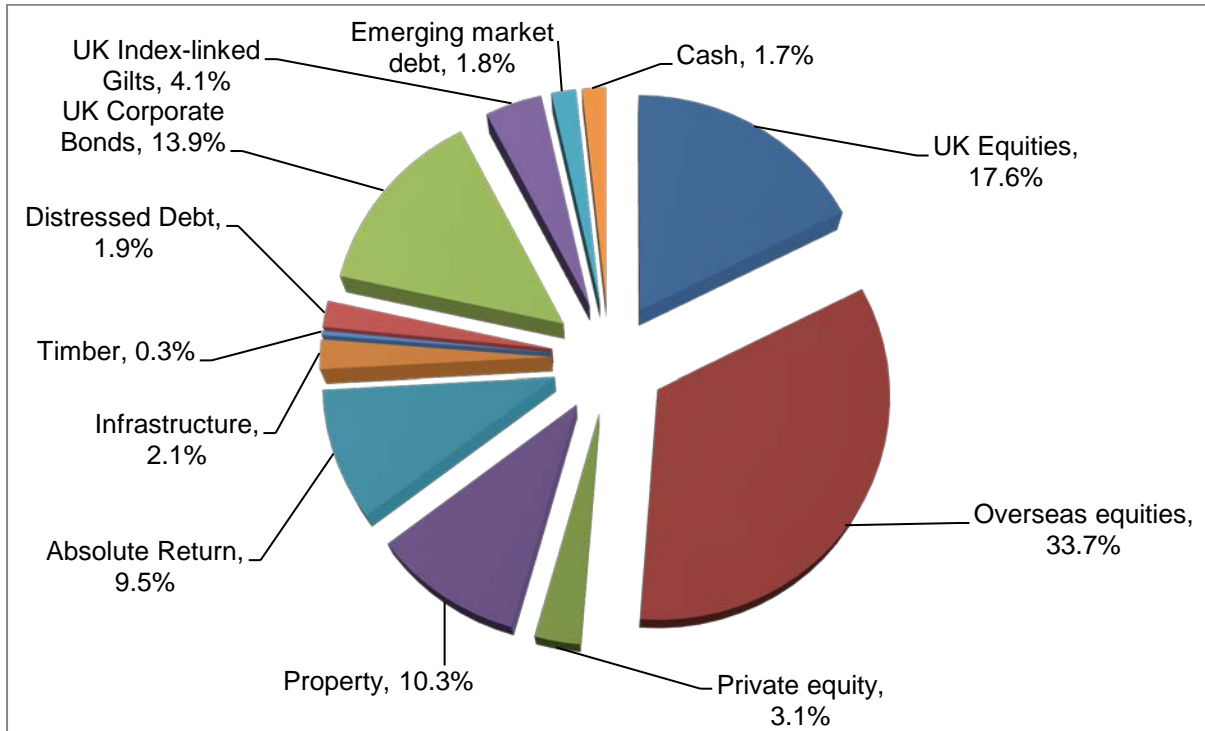
Sources of further information

39. Quarterly Performance Report to 30 June 2015 – State Street Global Services

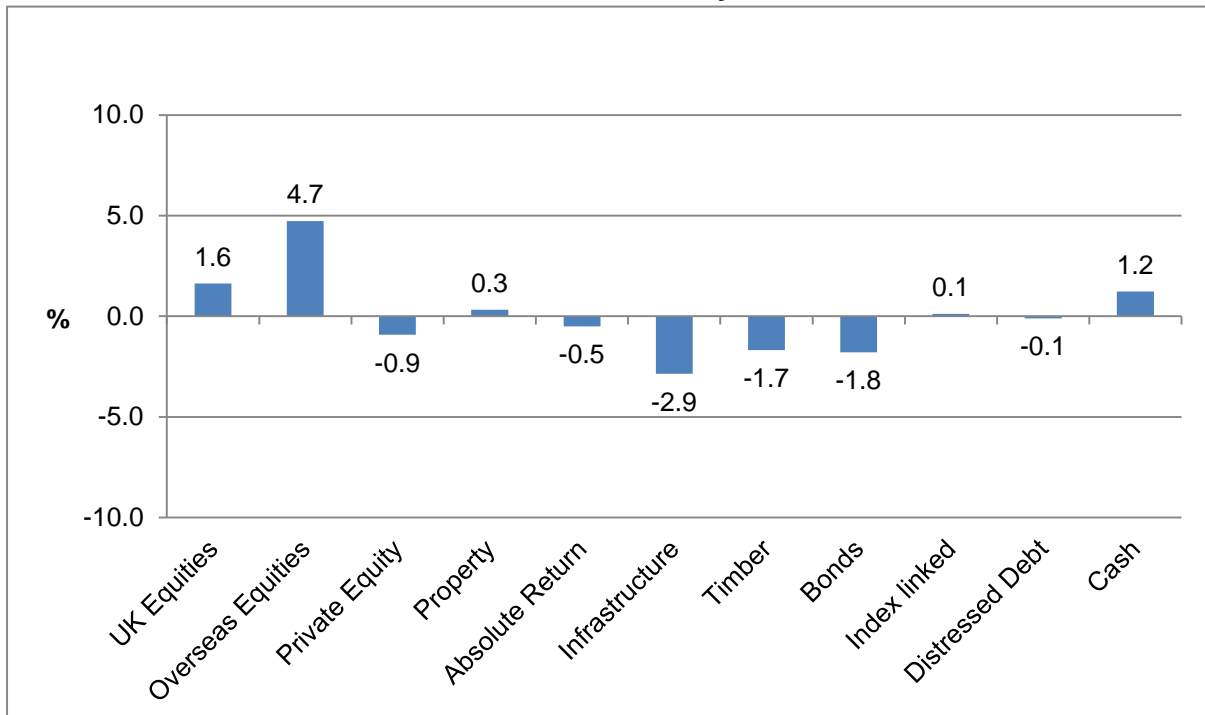
ASSET ALLOCATION

Portfolio Valuation at 30 June 2015

Asset allocation by asset class



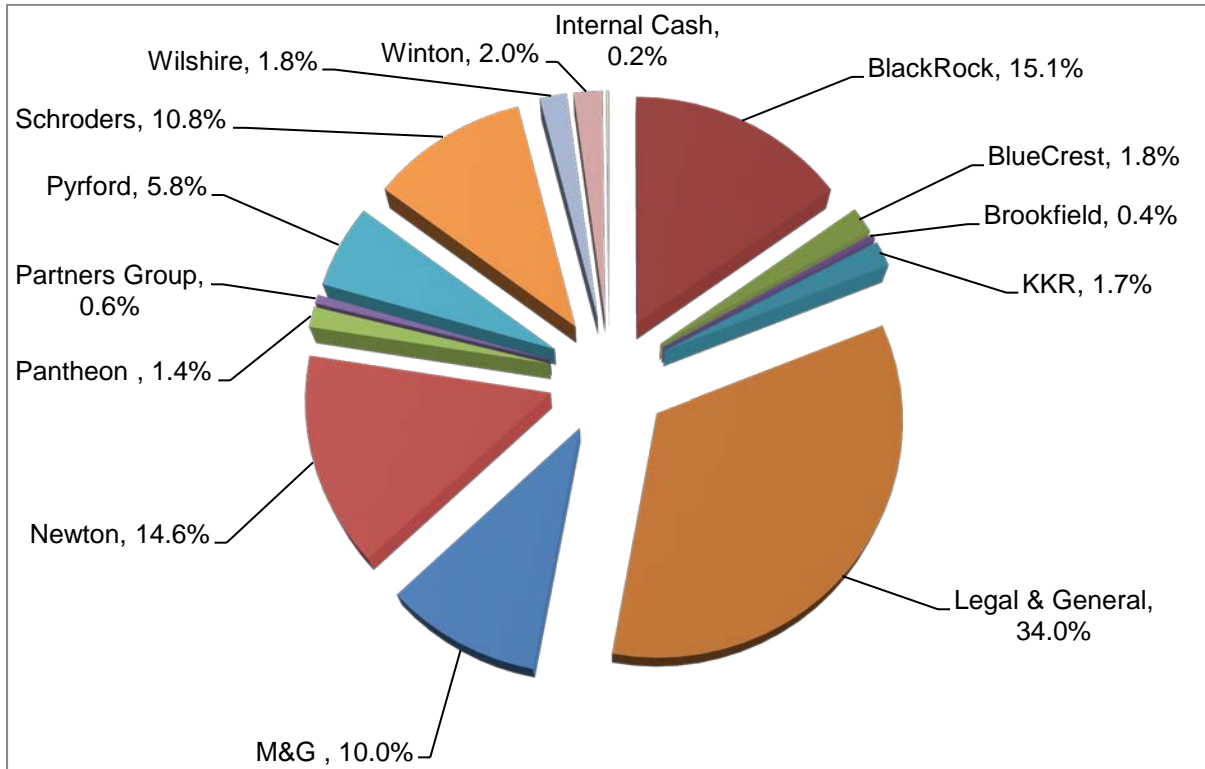
Variance of asset allocation from benchmark by asset class



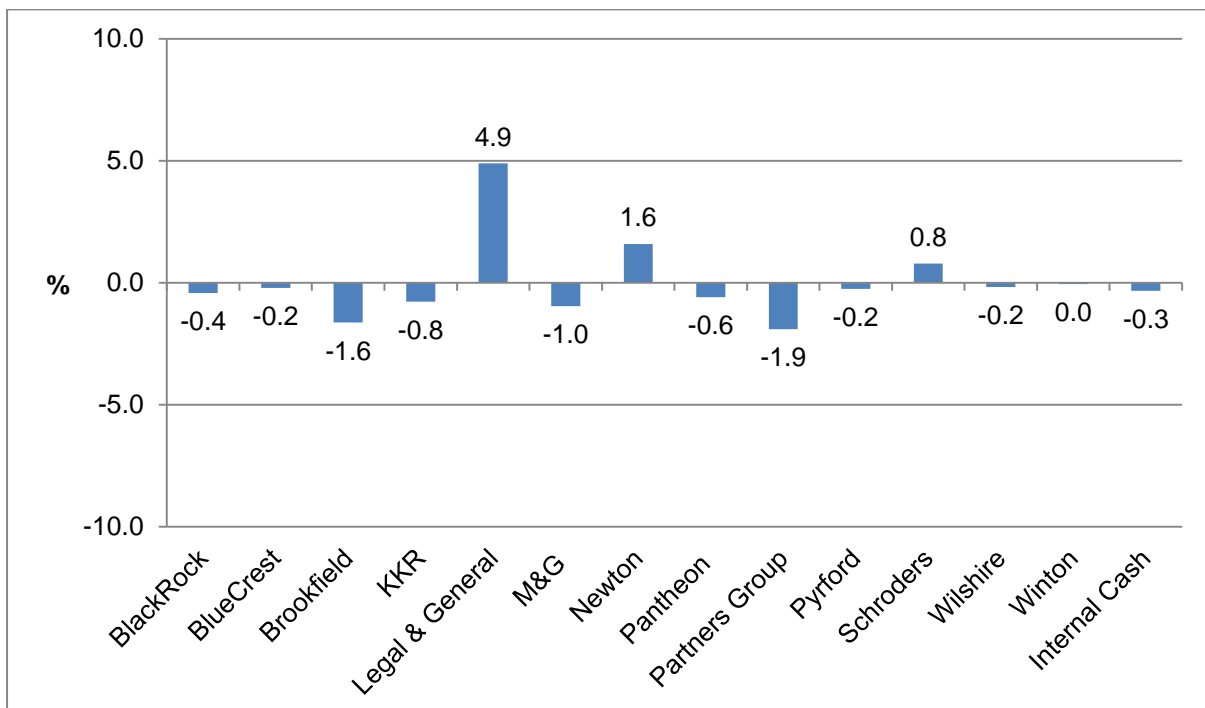
ASSET ALLOCATION

Portfolio Valuation at 30 June 2015

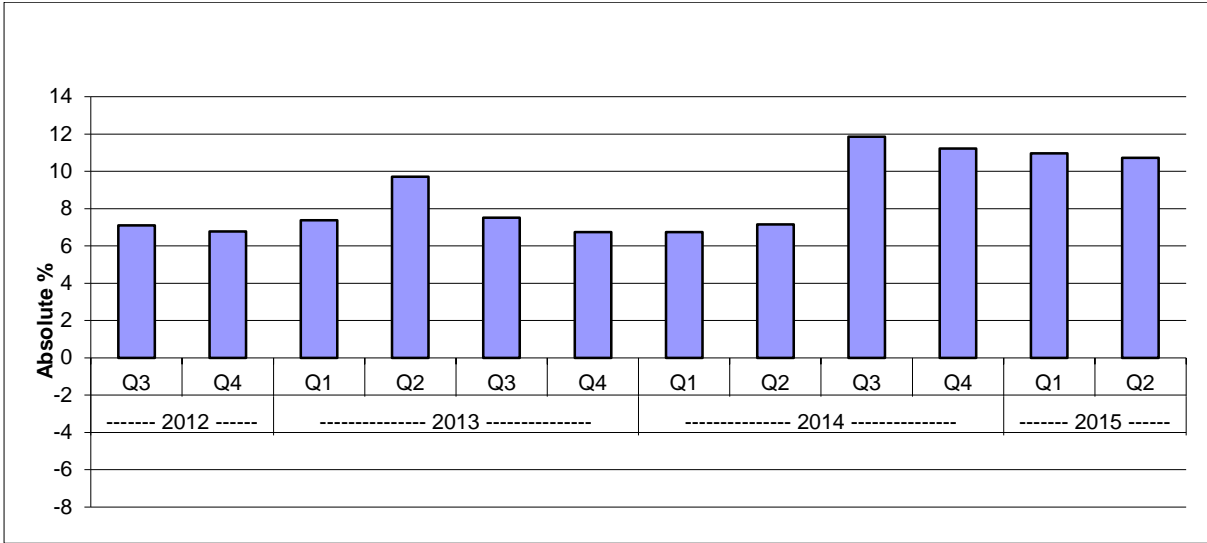
Asset allocation by manager



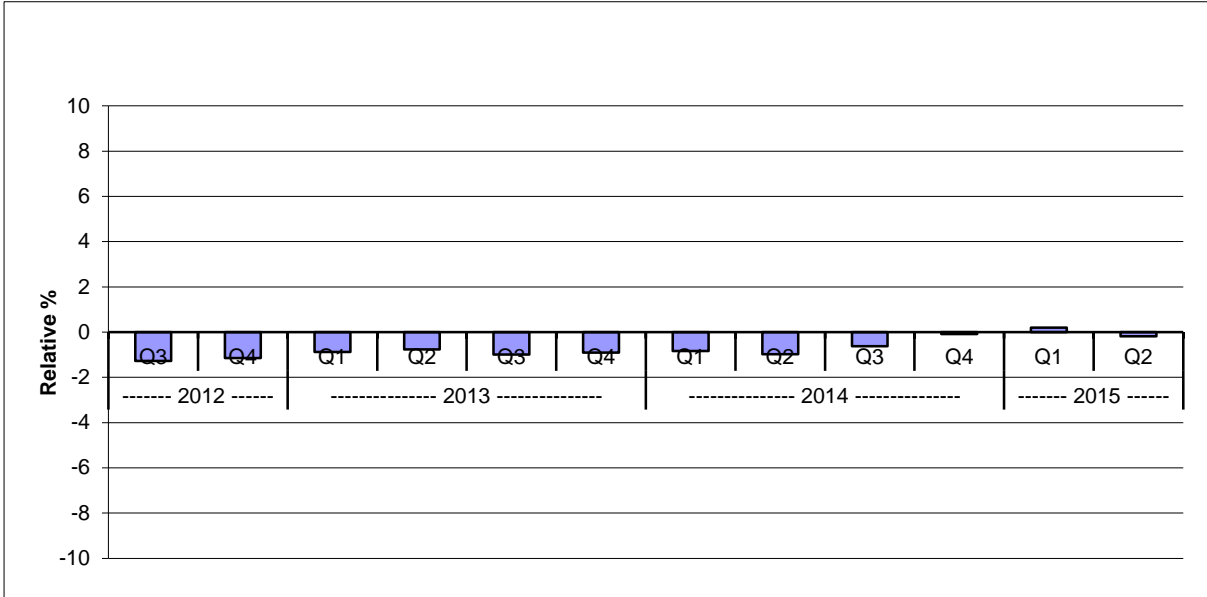
Variance by manager from asset allocation benchmark



Absolute whole Fund rolling 3 year performance



Relative whole Fund rolling 3 year performance



APPENDIX 4**Manager mandates and performance indices**

Manager	Mandate	Performance Benchmark	Incep. Date
Blackrock	UK Equities	FTSE All Share + 2%	July 2007
Blackrock	Bonds	GBP 3 month LIBOR + 5% p.a.	June 2015
Bluecrest	Absolute Return	GBP 3 month LIBOR + 5% p.a.	Sept 2012
Brookfield	Timber	8% p.a.	Dec 2011
KKR	Infrastructure	8% p.a.	Dec 2011
Legal & General	Multi Asset Passive	Composite	Sept 2000
M&G	Distressed Debt	8% p.a.	Sept 2012
M&G	Bonds	GBP 3 month LIBOR + 5% p.a.	May 2015
Newton	Global Equities	MSCI AC World NDR + 2.5%	July 2007
Partners	Infrastructure	8% p.a.	Dec 2011
Pantheon	Private Equity	8% p.a.	Mar 2003
Pyrford	Absolute Return	GBP 3 month LIBOR + 5% p.a.	Sept 2012
Schroders	Property	IPD UK PPF – All Balanced Funds + 0.75%	Mar 2006
Wilshire	Private Equity	8% p.a.	Mar 2003
Winton	Absolute Return	GBP 3 month LIBOR + 5% p.a.	Sept 2012