

Suffolk Pension Fund Committee

Report Title:	Investment Performance – Quarter ending 30 September 2015
Meeting Date:	30 November 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 30 September 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 September 2015 was £2.090bn, a decrease of around £54m from the valuation reported at 30 June 2015.
3. The overall investment return of the Fund in the quarter was -2.7%, 0.5% behind the benchmark return of -2.2%. The annual return of 4.8% is ahead of the benchmark by 0.4%.
4. The Fund's absolute return over a rolling three year period is 8.7%, above the benchmark by 0.1%.

Action recommended

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| 5. The Committee is asked to consider the contents of the report and to review the Fund's performance in the Quarter to 30 September 2015. |
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Reason for recommendation

6. 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

7. None

Main body of report

Financial Position of the asset classes against benchmark

8. 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.).
9. 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	363.2	17.4	16.0	+/-5%
Overseas Equities	669.7	32.1	29.0	+/-5%
Total listed equities	1,032.9	49.4	45.0	+/-5%
Corporate Bonds	293.5	14.0	15.5	+/-3%
UK Index-linked Gilts	83.9	4.0	4.0	+/-2%
Emerging Market Debt	41.5	2.0	2.0	+/-1%
Total Bonds	418.9	20.0	21.5	+/-3%
Private Equity	64.5	3.1	4.0	+/-2%
Property	222.3	10.7	10.0	+/-3%
Absolute Return	205.4	9.8	10.0	+/-3%
Infrastructure	52.1	2.5	5.0	+/-2%
Timber	7.2	0.3	2.0	+/-1%
Distressed Debt	42.2	2.0	2.0	+/-1%
Total Alternatives	593.7	28.4	33.0	+/-3%
Cash	44.2	2.1	0.5	+/-5%
Total	2,089.7	100.0	100.0	

10. The Fund continues to be overweight in overseas equities and alternatives continue to be underweight whilst the infrastructure mandates are still drawing down capital. The issues regarding the overweight position in overseas equities and the underweight position in timber is addressed in agenda item 14. The charts in **Appendix 1** show the Fund's asset allocation and the variance against the long term benchmark.
11. Reinvestment into the private equity programme was agreed at the 3 June 2015 committee meeting with the first capital calls for each fund being raised during October and November.
12. A breakdown of the cash held within the Pension Fund is set out overleaf:

Cash balances held within the Pension Fund as at 30 September 2015				
Manager	Cash	Money Market	Deposit Account	Total
	£'m	£'m	£'m	£'m
BlackRock	2.2	3.2	-	5.4
KKR	1.8	-	-	1.8
Newton	-2.2	11.0	-	8.8
Schroders	0.1	16.3	-	16.4
Internal Cash	0.8	7.5	3.6	11.9
Total	4.9	28.6	3.6	37.1

13. The Pension Fund has internal cash holdings of £11.9m in cash and cash equivalent products, which includes £3.6m held in a Lloyds Bank deposit account and £8.3m held with HSBC.
14. The amount held with HSBC includes £0.8m held in currencies which a money market fund is not held for but does attract bank interest. £7.5m is held in GBP and USD HSBC money market funds, this has accumulated from income and distributions returned from the alternative asset classes of private equity, infrastructure and timber. This money is used to fund capital calls.
15. The cash held by managers consists of £1.8m in a hedging fund held by KKR, the negative balance held by Newton represents a purchase waiting for settlement, whilst the balance in Blackrock represents a sale waiting for settlement.
16. At 31 March HSBC held £25m of cash in Money Market Funds, which is at the maximum £25m treasury management limit the Committee has agreed. Newton has agreed to transfer some of the cash they are holding in the HSBC money market to a BNY Mellon sterling liquidity fund which was recently set up for this purpose.
17. Schroders have increased their cash balance by just under £5m to £16.4m with £6.7m held in the HSBC money market fund and £9.6m currently being held in a Schroder Offshore Cash Fund.
18. Blackrock operate their own money market fund, Institutional Cash Series, which has their surplus cash balance of £3.2m invested.
19. 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.
20. During the second quarter of the financial year, Partners received £1.1m and M&G £0.9m for capital calls as part of their investment programme, this was funded from the cash held in HSBC.
21. The main distributions received in the quarter consisted of £1.1m from Pantheon, £3.4m from Wilshire and £0.2m from KKR, these receipts are included in our internal cash balance with HSBC.

Cash Balances held by Suffolk County Council at 30 September 2015

22. 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	3.6		
Contributions and Income Received	30.7	28.4		
Benefits and Expenses Paid	-27.6	-28.9		
Net Income	3.1	-0.5		
Transactions with fund managers	-2.7	0.5		
Cash Flow in the Quarter	0.4	0.0		
Cash in Hand C/fwd	3.6	3.6		

Financial Position of the Investment Managers against benchmark

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

Manager	Benchmark Allocation by Manager		
	Holdings £'m	Actual %	Long-term %
BlackRock	313.9	15.0	15.5
BlueCrest	39.2	1.9	2.0
Brookfield	8.4	0.4	2.0
CRIL	0.1	0.0	-
KKR	41.1	2.0	2.5
Legal & General	682.1	32.6	29.0
M&G	212.3	10.2	11.0
Newton	299.8	14.3	13.0
Pantheon	30.2	1.4	2.0
Partners Group	14.7	0.7	2.5
Pyrford	122.8	5.9	6.0
Schroders	238.6	11.4	10.0
Wilshire	39.4	1.9	2.0
Winton	43.5	2.1	2.0
Internal Cash	3.6	0.2	0.5
Total	2,089.7	100.0	100.0

24. 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. The Brookfield (timber) position is reported on separately in agenda item 14.

25. The private equity holdings of Wilshire and Pantheon are currently 3.3% 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 were settled in October 2015.
26. 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

27. 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

28. The investment objectives of the Fund's investment managers' are to outperform relative to their benchmark index, typically the index for the market they are invested in or on an absolute return cash plus basis. 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.
29. An evaluation and appraisal of each investment manager's performance for the September 2015 quarter has been produced by Hymans Robertson in **Appendix 5**.
30. On 2 November 2015, face to face meetings were held with Blackrock, M&G, Newton, Winton, Bluecrest, Pyrford and Brookfield to discuss their recent performance, a review of those meetings provided by Mark Stevens is in **Appendix 6**.

Markets

31. Global equities returned their weakest quarter's performance in four years, with emerging markets performing particularly poorly. 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

32. 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 51.3% as at 30 September 2015.

Position	Investment	Value £'m	% of Fund
1	L&G FTSE RAFI AW 3000	193.3	9.2%
2	M&G Alpha Opportunities	170.1	8.1%
3	L&G UK Equity	145.9	7.0%
4	Blackrock FIGO	123.4	5.9%
5	Pyrford Global Mutual Fund	122.7	5.9%
6	L&G 5 year Gilts	83.9	4.0%
7	L&G North America Equity Index	74.4	3.6%
8	L&G Europe Equity Hedged	73.8	3.5%
9	Winton Futures Fund	43.5	2.1%
10	L&G Emerging Market Govt Bond	41.5	2.0%

33. 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.
34. The top 10 equity shares held by the Pension Fund are set out below. These holdings in total are worth £105.3m and represent 5% of the fund.

Position	Investment	Value £'m	% of Fund
1	British American Tobacco	14.7	0.7%
2	Google	13.1	0.6%
3	Wolseley	11.0	0.5%
4	HSBC	10.4	0.5%
5	Microsoft	10.4	0.5%
6	Prudential	9.9	0.5%
7	Express Scripts Holdings	9.5	0.5%
8	Altria	9.2	0.4%
9	Apple	8.6	0.4%
10	Citigroup	8.6	0.4%

35. The holdings in Altria and Google have increased in the last quarter as these organisations represent stability in the market, as their operations are not overly effected by market volatility.
36. The holdings in Prudential have been reduced due to concerns about its exposure in emerging markets.

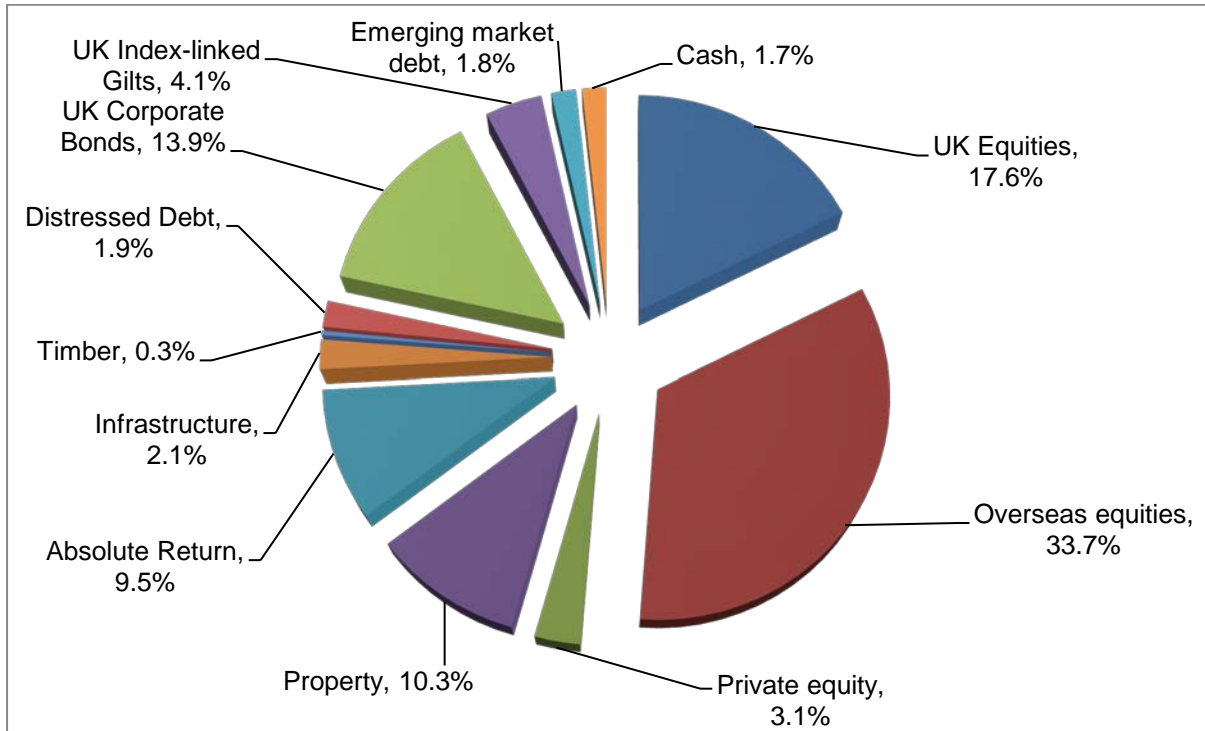
Sources of further information

37. Quarterly Performance Report to 30 September 2015 – State Street Global Services

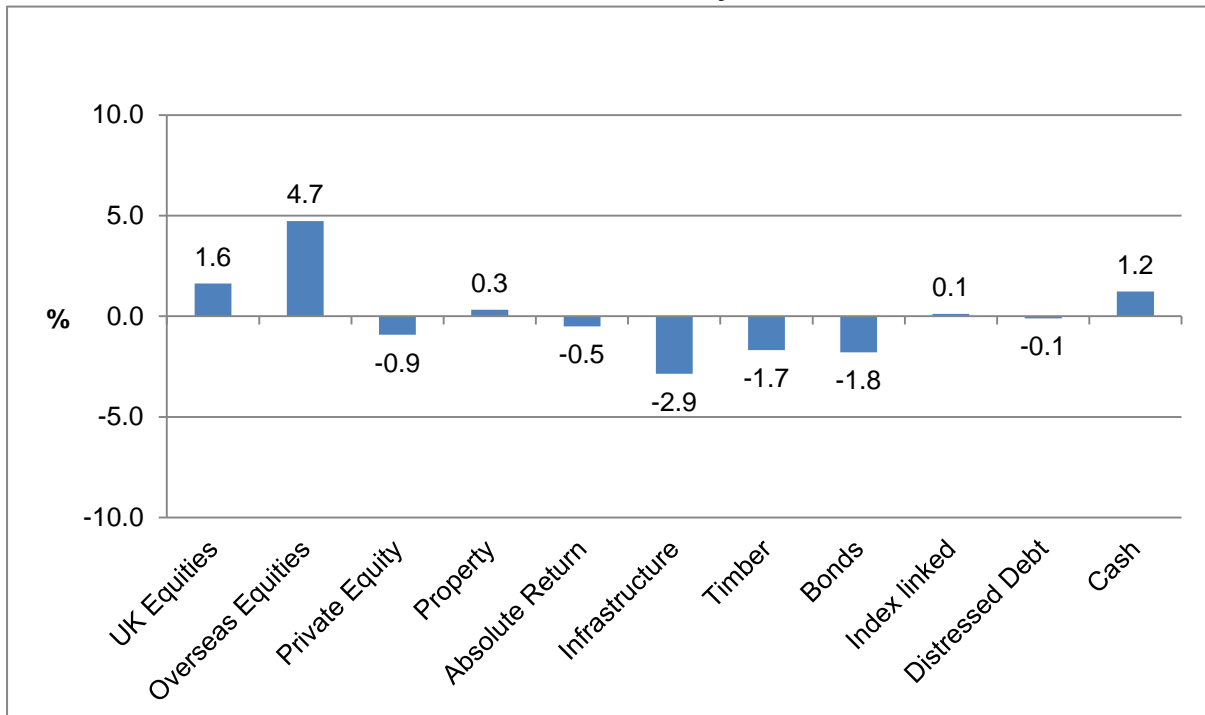
ASSET ALLOCATION

Portfolio Valuation at 30 September 2015

Asset allocation by asset class



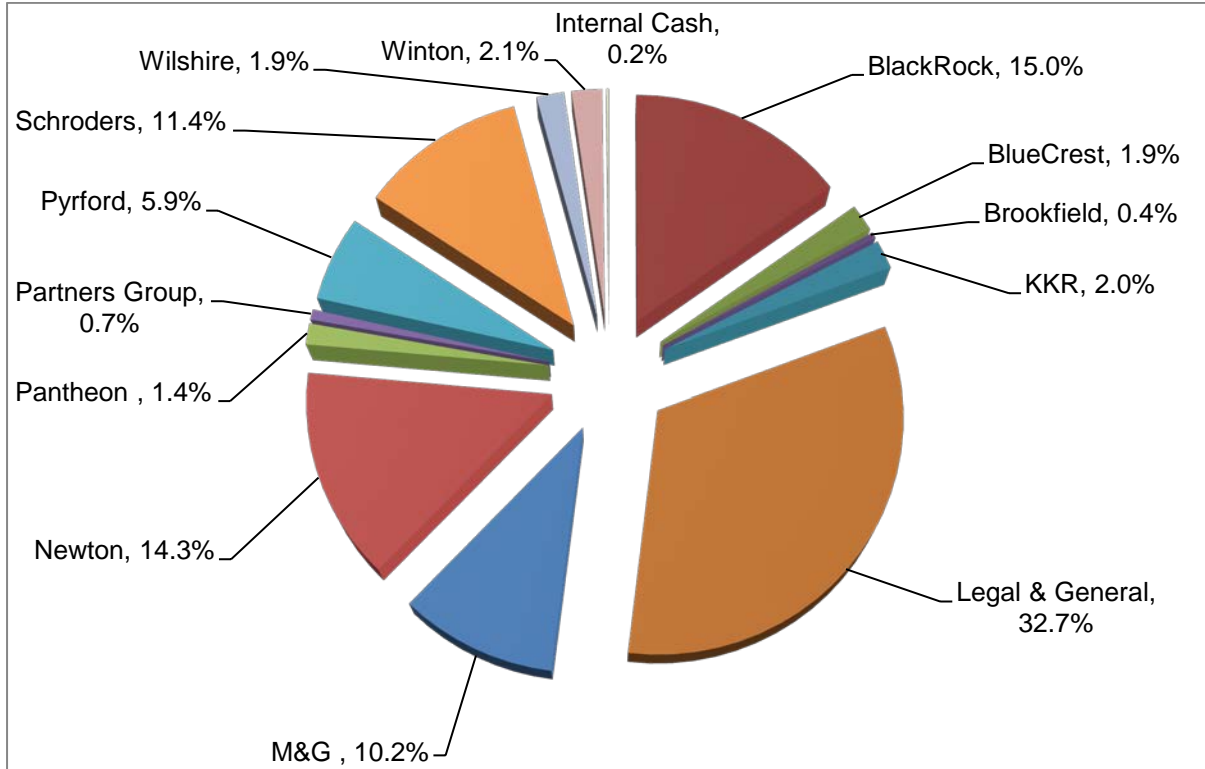
Variance of asset allocation from benchmark by asset class



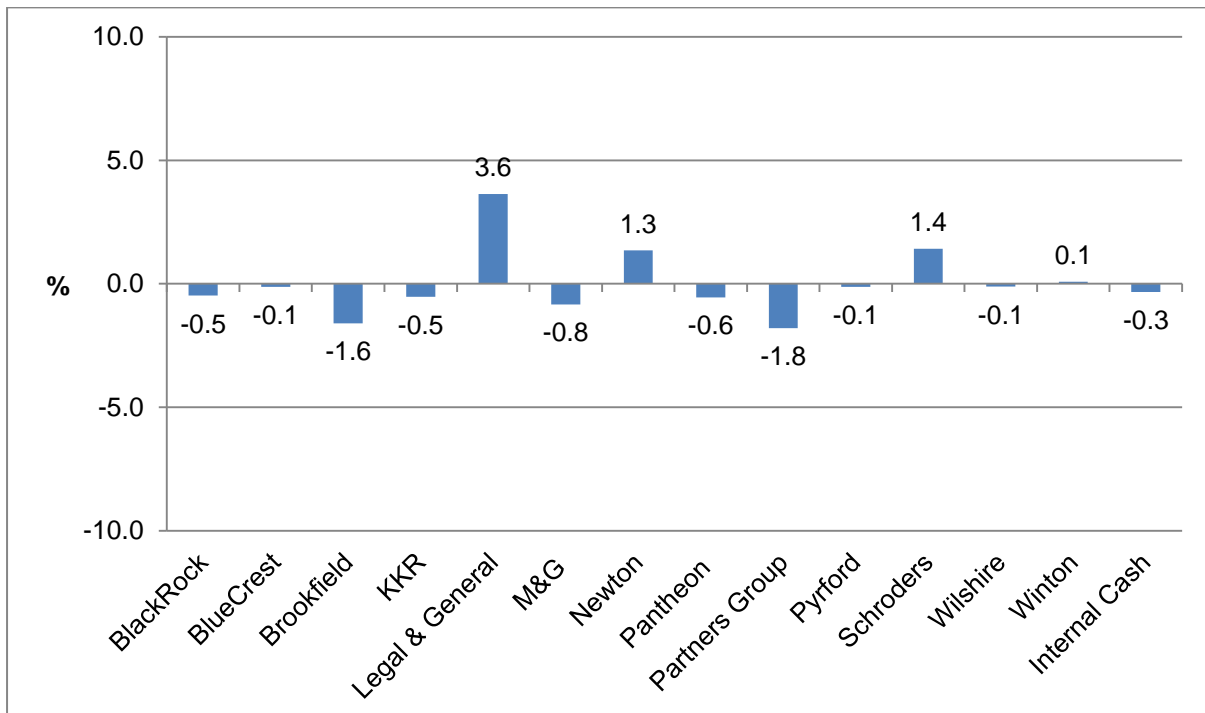
ASSET ALLOCATION

Portfolio Valuation at 30 September 2015

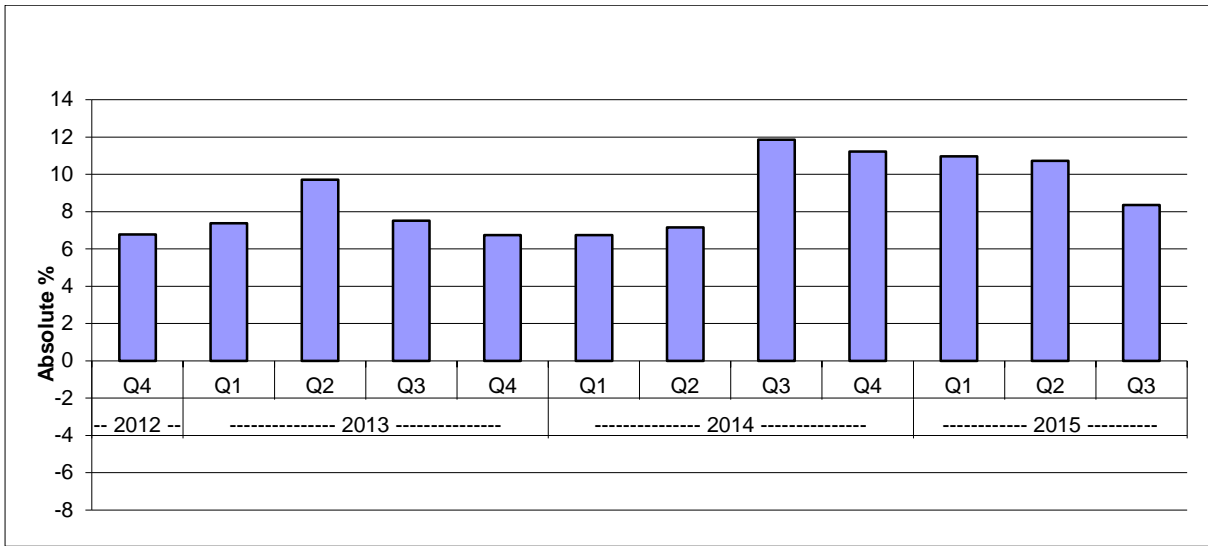
Asset allocation by manager



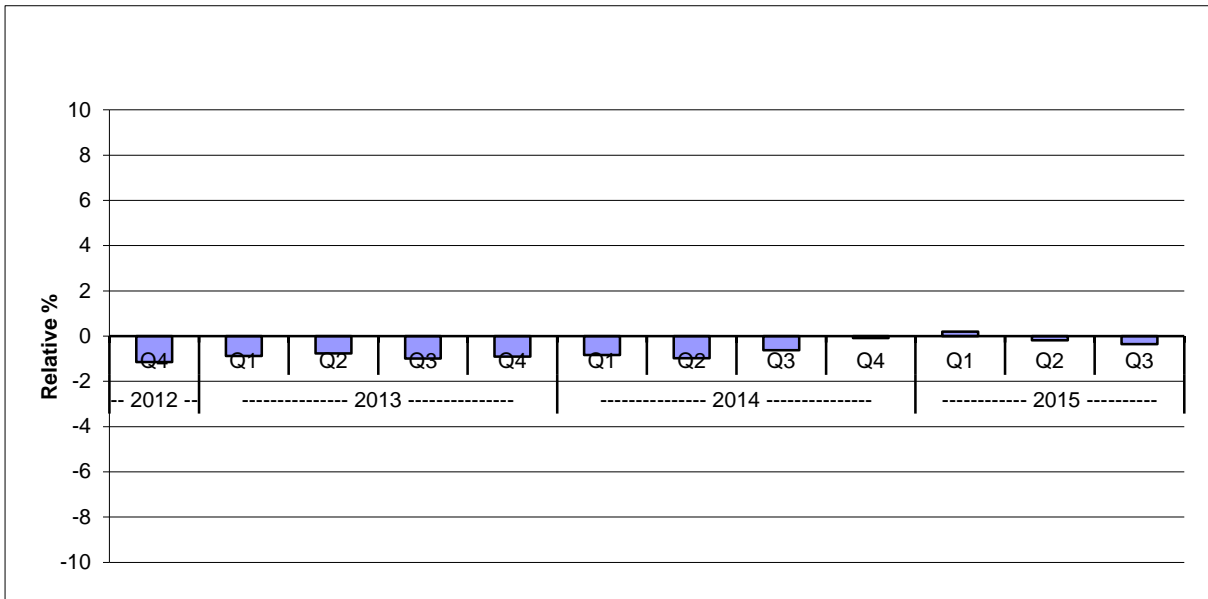
Variance by manager from asset allocation benchmark



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%	Apr 2001
Wilshire	Private Equity	8% p.a.	Mar 2003
Winton	Absolute Return	GBP 3 month LIBOR + 5% p.a.	Sept 2012