

## Suffolk Pension Fund Committee

<b>Report Title:</b>	Investment Performance – Quarter ending 31 December 2015
<b>Meeting Date:</b>	24 February 2016
<b>Chairman:</b>	Cllr Peter Bellfield
<b>Director:</b>	Geoff Dobson, Director of Resource Management Tel. 01473 264347
<b>Author:</b>	Paul Finbow, Senior Pension 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 31 December 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 31 December 2015 was £2.186bn, an increase of around £96m from the valuation reported at 30 September 2015.
3. The overall investment return of the Fund in the quarter was 4.3%, 0.3% ahead of the benchmark return of 4.0%. The annual return of 5.0% is behind the benchmark by 0.1%.
4. The Fund's absolute return over a rolling three year period is 9.4%, above the benchmark by 0.3%.

### **Action recommended**

- |   |
|---|
| 5. The Committee is asked to consider the contents of the report and to review the Fund's performance in the quarter to 31 December 2015. |
|---|

### **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 asset allocation agreed at the 30 November 2015 committee meeting.

Asset Class		Actual	Long-term	Range Guidelines
	£'m	%	%	
UK Equities	377.9	17.2	16.0	+/-5%
Overseas Equities	731.4	33.5	30.0	+/-5%
<b>Total listed equities</b>	<b>1,109.3</b>	<b>50.7</b>	<b>46.0</b>	+/-5%
Corporate Bonds	305.3	13.9	15.5	+/-3%
UK Index-linked Gilts	81.1	3.7	4.0	+/-2%
Emerging Market Debt	42.7	2.0	2.0	+/-1%
<b>Total Bonds</b>	<b>429.1</b>	<b>19.6</b>	<b>21.5</b>	+/-3%
Private Equity	67.3	3.1	4.0	+/-2%
Property	239.5	11.1	10.0	+/-3%
Absolute Return	208.0	9.5	10.0	+/-3%
Infrastructure	55.3	2.5	5.0	+/-2%
Timber	7.5	0.3	1.0	+/-1%
Distressed Debt	45.4	2.1	2.0	+/-1%
<b>Total Alternatives</b>	<b>623.0</b>	<b>28.6</b>	<b>32.0</b>	+/-3%
<b>Cash</b>	<b>24.8</b>	<b>1.1</b>	<b>0.5</b>	+/-5%
<b>Total</b>	<b>2,186.2</b>	<b>100.0</b>	<b>100.0</b>	

10. The Fund continues to be overweight in overseas equities. Alternatives continue to be underweight whilst the infrastructure mandates are still drawing down capital.
11. Reinvestment into the private equity programme was agreed at the 3 June 2015 committee meeting with capital calls of £8.5m being met during the quarter.
12. With a surplus of cash held by the Pension Fund a rebalancing exercise was carried out in November resulting in a £10m investment with Blackrock in the bond mandate.
13. A breakdown of the cash held within the Pension Fund is set out overleaf:

<b>Cash balances held within the Pension Fund as at 31 December 2015</b>				
<b>Manager</b>	<b>Cash</b>	<b>Money Market</b>	<b>Deposit Account</b>	<b>Total</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
BlackRock	0.3	3.3	-	3.6
KKR	2.0	-	-	2.0
Newton	-	6.3	-	6.3
Schroders	0.1	4.7	-	4.8
Internal Cash	0.1	5.5	2.5	8.1
<b>Total</b>	<b>2.5</b>	<b>19.8</b>	<b>2.5</b>	<b>24.8</b>

14. The Pension Fund has internally managed cash holdings of £8m in cash and cash equivalent products, which includes £2.5m held in a Lloyds Bank deposit account and £5.6m held with HSBC.
15. The amount held with HSBC includes £0.1m held in currencies which a money market fund is not held for but does attract bank interest. £5.5m is held in GBP and USD HSBC money market funds, these have 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.
16. The cash held by managers consists of £2.0m in a hedging fund held by KKR, whilst the balance in Blackrock represents sterling that missed the cash sweep cut off.
17. At 31 December HSBC held £12m of cash in Money Market Funds, which is far below the maximum £50m treasury management limit the Committee has agreed.
18. Schroders have decreased their cash balance to just under £5m settling a number of commitments. Schroders have their cash balance of £4.7m in the Schroders Offshore Cash fund.
19. Blackrock operate their own money market fund, Institutional Cash Series, which holds their surplus cash balance of £3.3m.
20. 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.
21. In addition to the £10m given to Blackrock and £8.5m to Pantheon, during the third quarter of the financial year Partners received £2.4m, KKR received £2.4m and M&G £2.3m for capital calls as part of their investment programme, £5m was funded from L&G with the remainder funded through the surplus cash held in HSBC and the Lloyds account managed by SCC.
22. The main distributions received in the quarter consisted of £1.5m from Pantheon, £3.2m from Wilshire, £1.1m from Partners and £3.7m from KKR.

## Cash Balances held by Suffolk County Council at 31 December 2015

23. 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
<b>Cash in Hand B/fwd</b>	<b>3.2</b>	<b>3.6</b>	<b>3.6</b>	
Contributions and Income Received	30.7	28.4	29.8	
Benefits and Expenses Paid	-27.6	-28.9	-23.9	
<b>Net Income</b>	<b>3.1</b>	<b>-0.5</b>	<b>5.9</b>	
Transactions with fund managers	-2.7	0.5	-7.0	
<b>Cash Flow in the Quarter</b>	<b>0.4</b>	<b>0.0</b>	<b>-1.1</b>	
<b>Cash in Hand C/fwd</b>	<b>3.6</b>	<b>3.6</b>	<b>2.5</b>	

## Financial Position of the Investment Managers against benchmark

24. The actual valuation of the investments held by each fund manager as at 31 December 2015 against the long term benchmarks are shown below:

Manager	Benchmark Allocation by Manager			
	Holdings	Actual	Long-term	Range
	£'m	%	%	%
BlackRock	335.8	15.4	15.5	+/-2%
BlueCrest	39.2	1.8	2.0	+/-1%
Brookfield	7.5	0.3	1.0	-
CRIL	0.1	0.0	-	-
KKR	42.1	1.9	2.5	-
Legal & General	711.8	32.6	30.0	+/-5%
M&G	217.0	9.9	11.0	+/-2%
Newton	329.2	15.1	13.0	+/-3%
Pantheon	37.3	1.7	2.5	-
Partners Group	16.6	0.8	2.5	-
Pyrford	125.6	5.7	6.0	+/-2%
Schroders	244.4	11.2	10.0	+/-3%
Wilshire	33.9	1.5	1.5	-
Winton	43.2	2.0	2.0	+/-1%
Internal Cash	2.5	0.1	0.5	+/-5%
<b>Total</b>	<b>2186.2</b>	<b>100.0</b>	<b>100.0</b>	

25. The Newton mandate is currently overweight, although still within the benchmark range, this ties in with the global equity asset allocation which is also overweight.
26. KKR and Partners (infrastructure), M&G (debt opportunity) and Pantheon (private equity) 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. They have not been allocated a benchmark range as the investments cannot be managed in that way.

27. 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**

28. 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**

29. 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.
30. An evaluation and appraisal of each investment manager's performance for the December 2015 quarter has been produced by Hymans Robertson in **Appendix 5**.
31. On 29 January 2016, face to face meetings were held with Blackrock, M&G, Newton, Schroders, Partners, KKR and Pantheon to discuss their recent performance, a review of those meetings provided by Mark Stevens is set out in **Appendix 6**.

### **Markets**

32. The quarter ended 31 December 2015 was a bounce back quarter, with global equity markets rebounding from the weak performance in the previous quarter. The Federal Reserve raised interest rates from 0.25% to 0.50%, the first time it has raised interest rates since June 2006 whereas China cut their interest rates by 0.25% to 4.35%. 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**

33. 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% as at 31 December 2015.

<b>Position</b>	<b>Investment</b>	<b>Value £'m</b>	<b>% of Fund</b>
1	L&G FTSE RAFI AW 3000	206.8	9.5%
2	M&G Alpha Opportunities	171.6	7.8%
3	L&G UK Equity	151.8	6.9%
4	Blackrock FIGO	133.8	6.1%
5	Pyrford Global Mutual Fund	125.6	5.7%
6	L&G 5 year Gilts	81.1	3.7%
7	L&G North America Equity Index	79.7	3.6%
8	L&G Europe Equity Hedged	75.6	3.5%
9	Winton Futures Fund	43.2	2.0%
10	L&G Emerging Market Govt Bond	42.7	2.0%

34. 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.
35. The top 10 equity shares held by the Pension Fund are set out below. These holdings in total are worth £113.3m and represent 5% of the fund.

<b>Position</b>	<b>Investment</b>	<b>Value £'m</b>	<b>% of Fund</b>
1	British American Tobacco	15.3	0.7%
2	Microsoft	13.6	0.6%
3	Wolseley	11.4	0.5%
4	HSBC	11.2	0.5%
5	Alphabet Inc	11.2	0.5%
6	Prudential	10.9	0.5%
7	Altria	10.8	0.5%
8	Express Scripts Holdings	10.7	0.5%
9	Citigroup	9.3	0.4%
10	Toyota	8.9	0.4%

36. Google now trades as Alphabet Inc, which has been set up to serve as a parent company to several subsidiaries, of which Google is one.

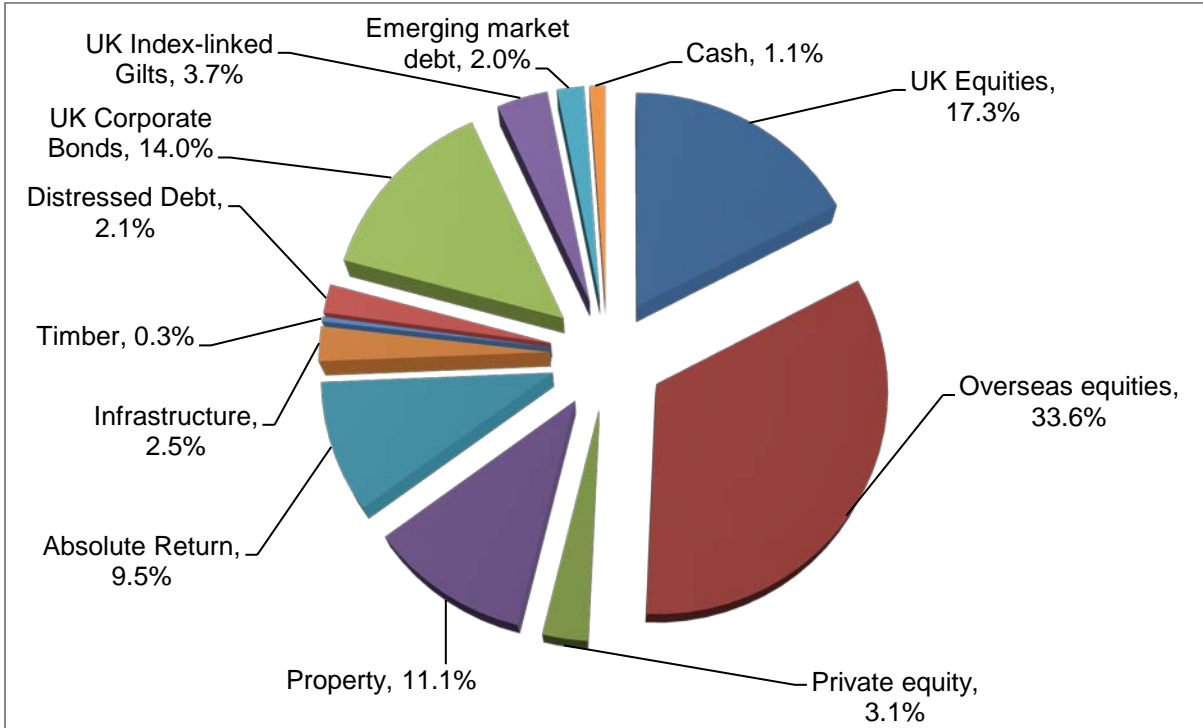
#### **Sources of further information**

37. Quarterly Performance Report to 31 December 2015 – State Street Global Services

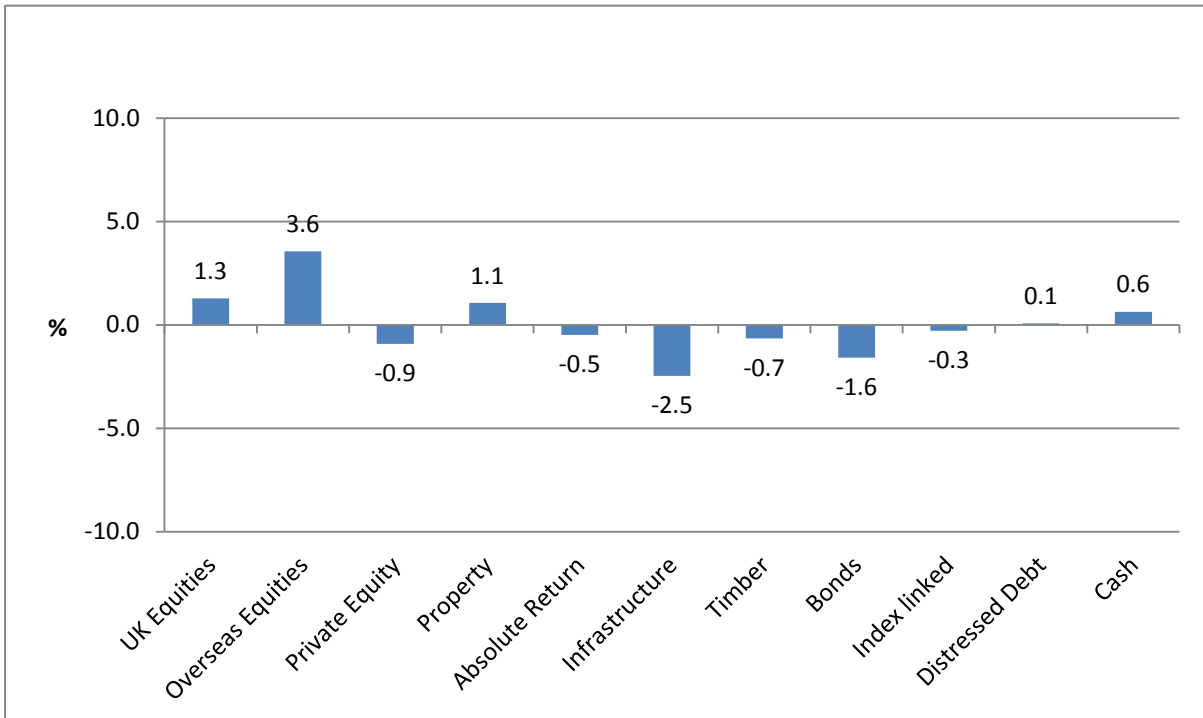
# ASSET ALLOCATION

Portfolio Valuation at 31 December 2015

## Asset allocation by asset class



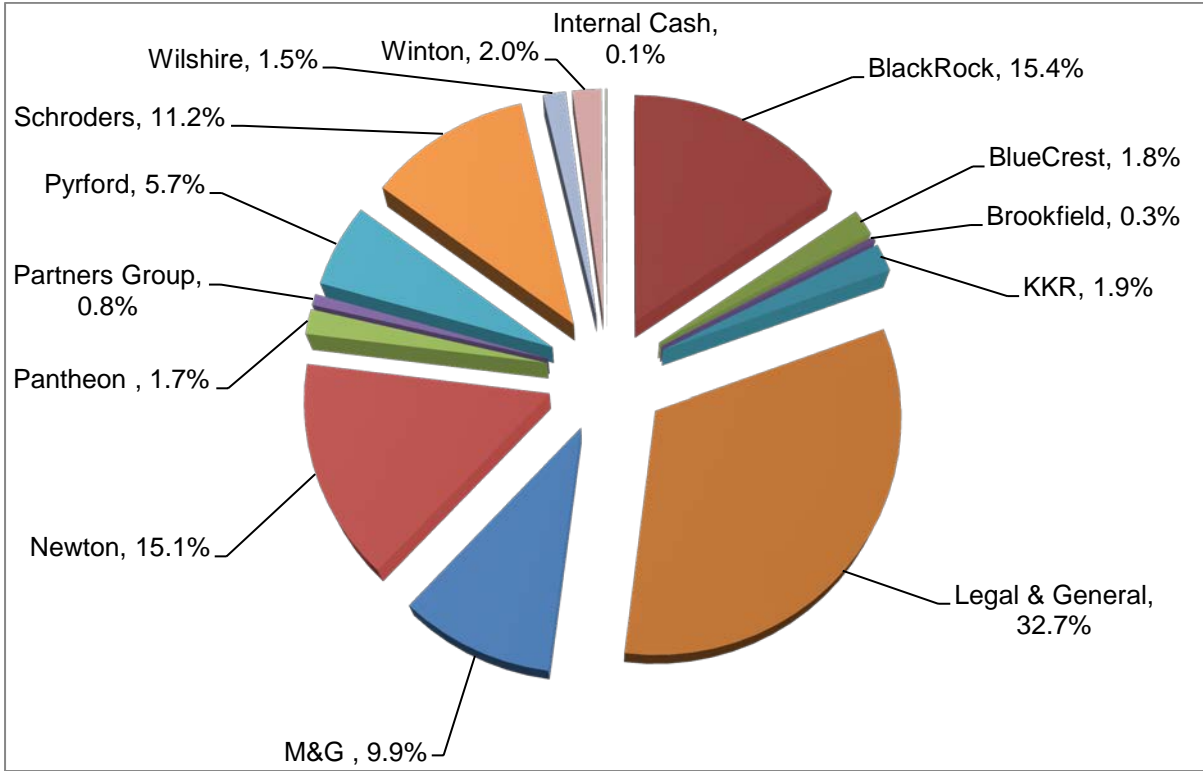
## Variance of asset allocation from benchmark by asset class



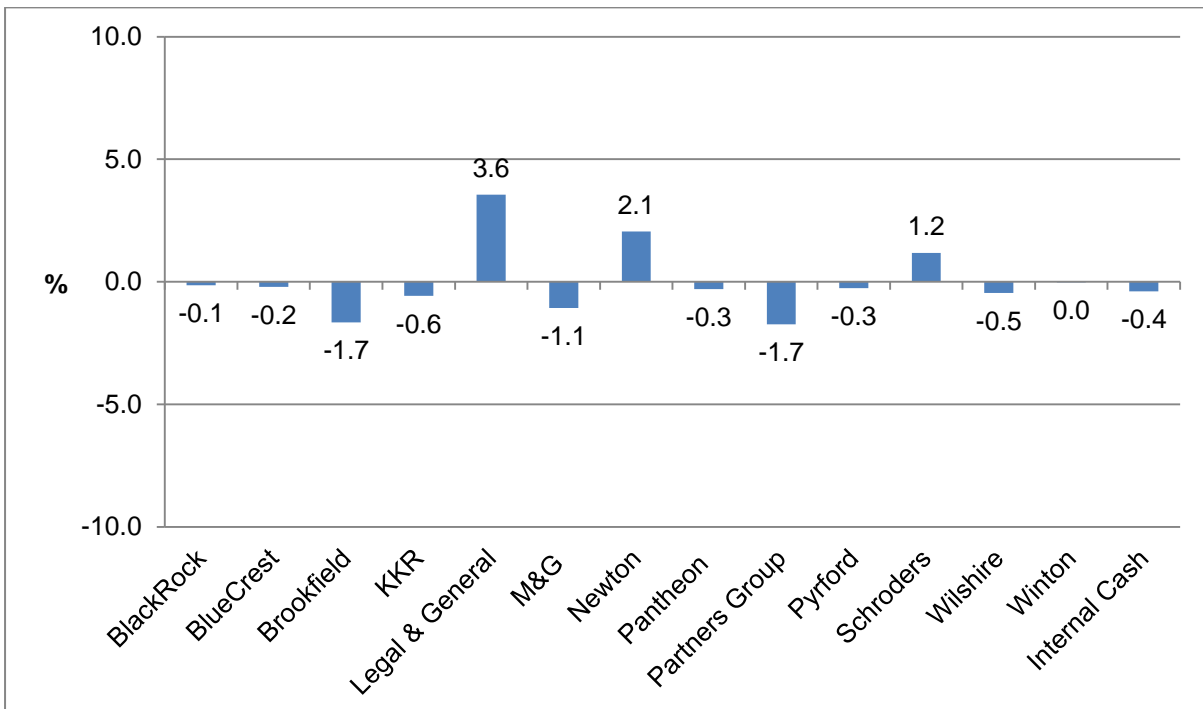
## ASSET ALLOCATION

Portfolio Valuation at 31 December 2015

### Asset allocation by manager

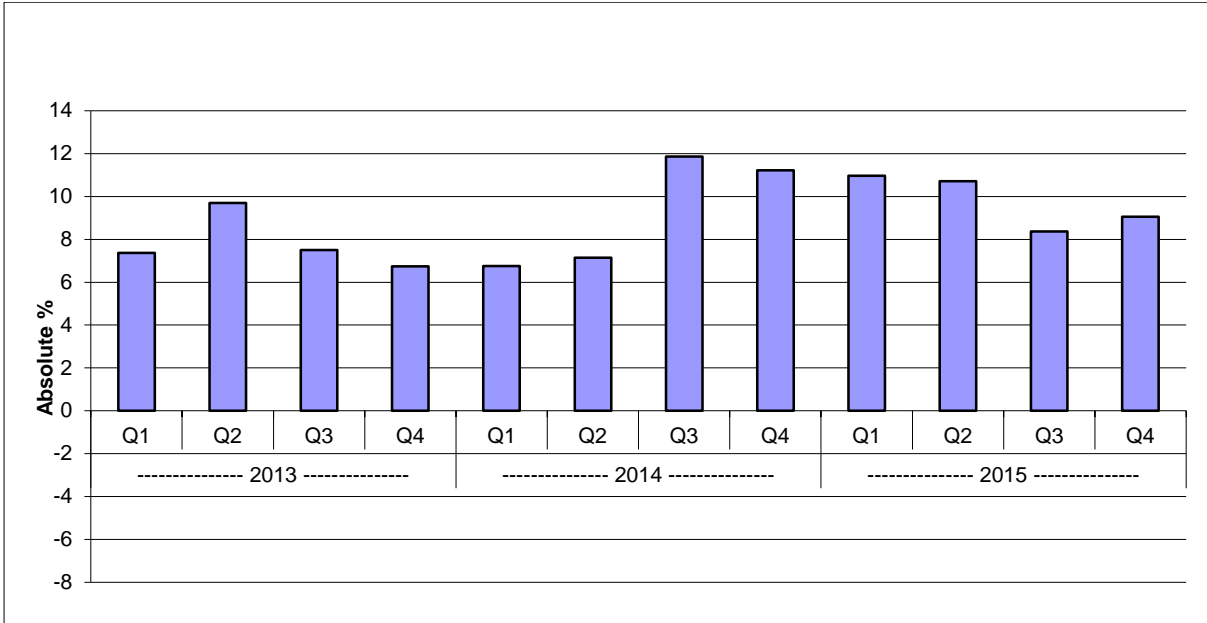


### Variance by manager from asset allocation benchmark

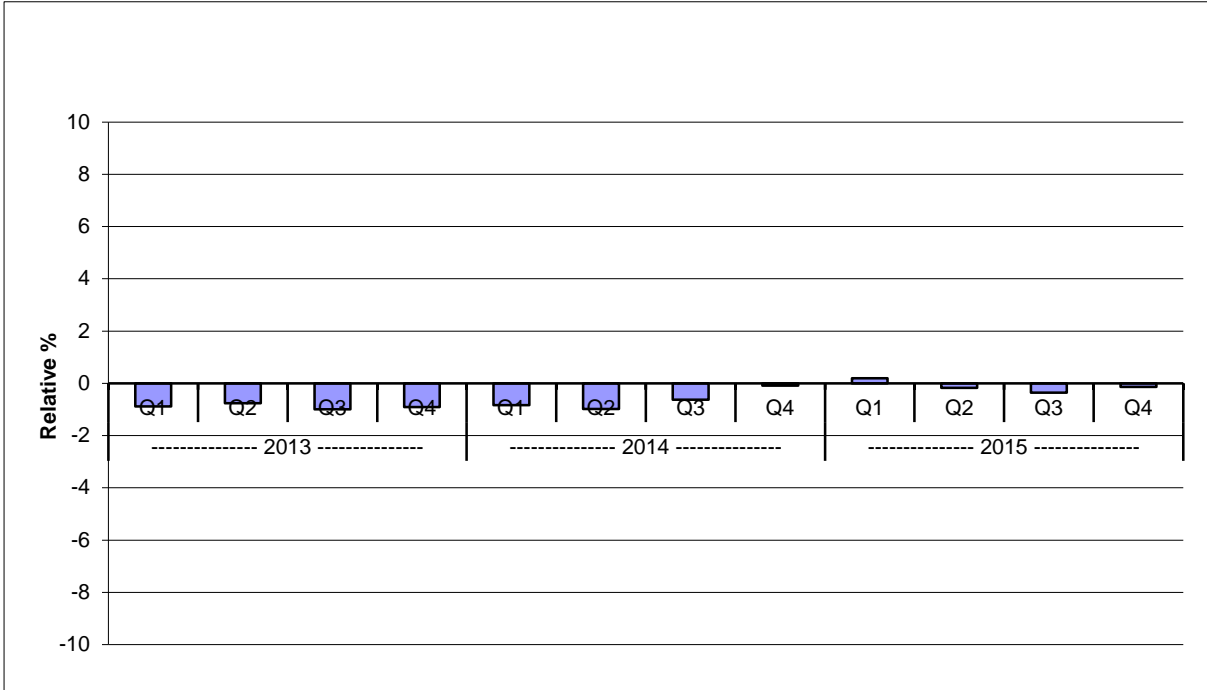




**Absolute whole Fund rolling 3 year performance**



**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