

Suffolk Pension Fund Committee

Report Title:	Investment Performance – Quarter ending 30 June 2016
Meeting Date:	22 September 2016
Chairman:	Councillor Andrew Reid
Director:	Geoff Dobson, Director of Resource Management Tel. 01473 264347
Author:	Paul Finbow, Senior Pensions 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 2016. 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 2016 was £2.310bn, an increase of around £100m from the valuation reported at 31 March 2016.
3. The overall investment return of the Fund in the quarter was 4.5%, just behind the benchmark return by 0.1%. The annual return of 7.5% is behind the benchmark by 0.4%.
4. The Fund's absolute return over a rolling three year period is 8.9%, behind 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 June 2016. |
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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 asset allocation agreed at the 6 June 2016 committee meeting.

Asset Class		Actual	Long-term	Range Guidelines
	£'m	%	%	
UK Equities	460.2	19.8	17.5	+/-5%
Overseas Equities	724.9	31.5	29.0	+/-5%
Total listed equities	1,185.1	51.3	46.5	+/-5%
Global Bonds	353.5	15.3	17.5	+/-3%
UK Index-linked Gilts	99.9	4.3	4.0	+/-2%
Total Bonds	453.4	19.6	21.5	+/-3%
Private Equity	70.6	3.1	4.0	+/-2%
Property	241.3	10.4	10.0	+/-3%
Absolute Return	213.5	9.2	10.0	+/-3%
Infrastructure	55.2	2.4	5.0	+/-2%
Timber	7.6	0.3	0.5	+/-1%
Distressed Debt	47.3	2.1	2.0	+/-1%
Total Alternatives	635.5	27.6	31.5	+/-3%
Cash	35.7	1.5	0.5	+/-5%
Total	2,309.7	100.0	100.0	

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.
12. On 6 June 2016 the Committee made a decision to disinvest the emerging market bonds with Legal & General and to place the returned funds (£45.2m) with Blackrock in the global bonds mandate.
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 2016				
Manager	Cash	Money Market	Deposit Account	Total
	£'m	£'m	£'m	£'m
BlackRock	0.5	3.8	-	4.3
KKR	2.0	-	-	2.0
Newton	-1.8	11.5	-	9.7
Schroders	-	5.5	-	5.5
Internal Cash	1.1	5.8	7.3	14.2
Total	1.8	26.6	7.3	35.7

14. The Pension Fund has internally managed cash holdings of £14.2m in cash and cash equivalent products, which includes £7.3m held in a Lloyds Bank deposit account and £6.9m held with HSBC.
15. The amount held with HSBC includes £1.1m held in currencies where a money market fund is not available, the balances do however attract bank interest. £5.8m 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 deposits that missed the daily cash sweep cut off time. The Newton balance is for a purchase awaiting settlement.
17. At 30 June 2016 £18.4m of cash was held in HSBC Money Market Funds, which is far below the maximum £50m treasury management limit the Committee has agreed.
18. Schroders have a cash balance of £5.5m holding £4.4m in the Schroders Offshore Cash fund and £1.1m with HSBC.
19. Blackrock operate their own money market fund, Institutional Cash Series, which holds their surplus cash balance of £3.8m.
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. Newton were holding 3.1% at the end of June which they had raised and reported, this was due to waiting for the right purchasing opportunity for earmarked stocks.
21. During the first quarter of the financial year, Pantheon received £2.5m for capital calls as part of their investment programme, this was funded through the surplus cash held in HSBC.
22. The main distributions received in the quarter consisted of £1.0m from Pantheon, £1.4m from Wilshire, £4.1m from KKR and £0.2m from Brookfield.

Cash Balances held by Suffolk County Council at 30 June 2016

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

Receipts and Payments 2015-16				
	Jun-16	Sep-16	Dec-16	Mar-17
	£'m	£'m	£'m	£'m
Cash in Hand B/fwd	6.1			
Contributions and Income Received	26.7			
Benefits and Expenses Paid	-25.9			
Net Income	0.8			
Transactions with fund managers	0.4			
Cash Flow in the Quarter	1.2			
Cash in Hand C/fwd	7.3			

Financial Position of the Investment Managers against benchmark

24. The actual valuation of the investments held by each fund manager as at 30 June 2016 against the long term benchmarks are shown below:

Manager	Benchmark Allocation by Manager			
	Holdings	Actual	Long-term	Range
	£'m	%	%	%
BlackRock	387.1	16.8	15.5	+/-2%
BlueCrest	6.1	0.3	-	-
Brookfield	7.6	0.3	0.5	-
CRIL	0.1	0.0	-	-
KKR	40.3	1.7	2.5	-
Legal & General	728.7	31.6	30.0	+/-5%
M&G	221.2	9.6	11.0	+/-2%
Newton	362.6	15.7	13.5	+/-3%
Pantheon	40.1	1.7	2.5	-
Partners Group	21.2	0.9	2.5	-
Pyrford	133.3	5.8	6.0	+/-2%
Schroders	246.9	10.7	10.0	+/-3%
Wilshire	33.0	1.4	1.5	-
Winton	74.2	3.2	4.0	+/-1%
Internal Cash	7.3	0.3	0.5	+/-5%
Total	2,309.7	100.0	100.0	

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. Partners (infrastructure), and Pantheon (private equity) remain only part funded. These investments only call for capital when they have an investment to fund.

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 June 2016 quarter has been produced by Hymans Robertson in **Appendix 5**.
31. On 5 August 2016, face to face meetings were held with Blackrock, Newton, M&G, Schroders, Pantheon, KKR and Partners to discuss their recent performance, a review of those meetings provided by Mark Stevens is set out in **Appendix 6**.

Markets

32. Global stocks rose modestly in a volatile quarter marked by concerns about worldwide economic growth. Stocks initially fell as a result of the referendum but a strong bounce back rally erased most of the losses. Rising oil prices produced gains in the energy sector. 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 £1.2bn, which is just over half the fund at 54% as at 30 June 2016.

Position	Investment	Value £'m	% of Fund
1	L&G FTSE RAFI AW 3000	226.2	9.8%
2	Blackrock FIGO	179.7	7.8%
3	M&G Alpha Opportunities	173.8	7.5%
4	L&G UK Equity	158.4	6.9%
5	Pyrford Global Mutual Fund	133.3	5.8%
6	L&G 5 yr Gilts	99.9	4.3%
7	L&G Europe Equity Hedged	81.2	3.5%
8	L&G North America Equity Index	81.2	3.5%
9	Winton Futures Fund	74.2	3.2%
10	M&G Debt Opportunities Fund I	31.7	1.4%

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 £126.0m and represent 5.5% of the fund.

Position	Investment	Value £'m	% of Fund
1	British American Tobacco	20.9	0.9%
2	Royal Dutch Shell	16.4	0.7%
3	Microsoft	13.8	0.6%
4	Wolseley	12.8	0.6%
5	Apple	11.9	0.5%
6	Alphabet	11.2	0.5%
7	Express Scripts Holdings	10.9	0.5%
8	Vodafone Group	9.8	0.4%
9	Japan Tobacco	9.4	0.4%
10	Unilever	8.9	0.4%

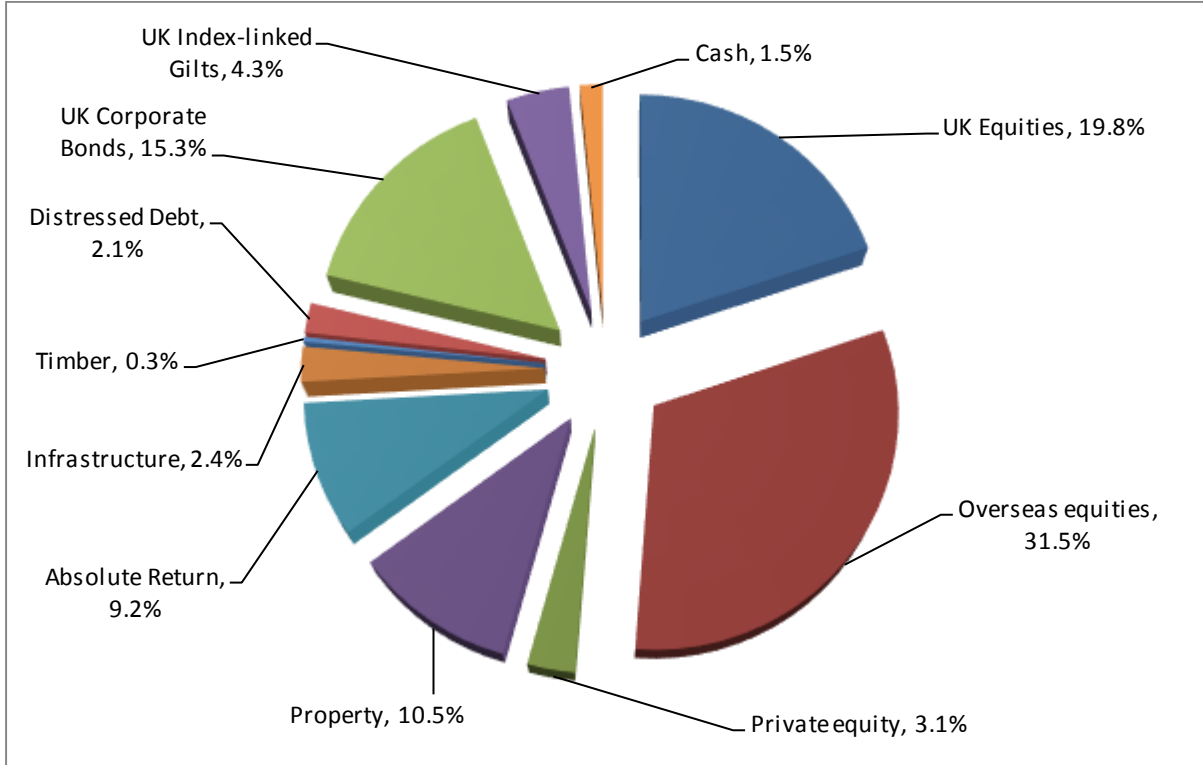
Sources of further information

36. Quarterly Performance Report to 30 June 2016 – State Street Global Services

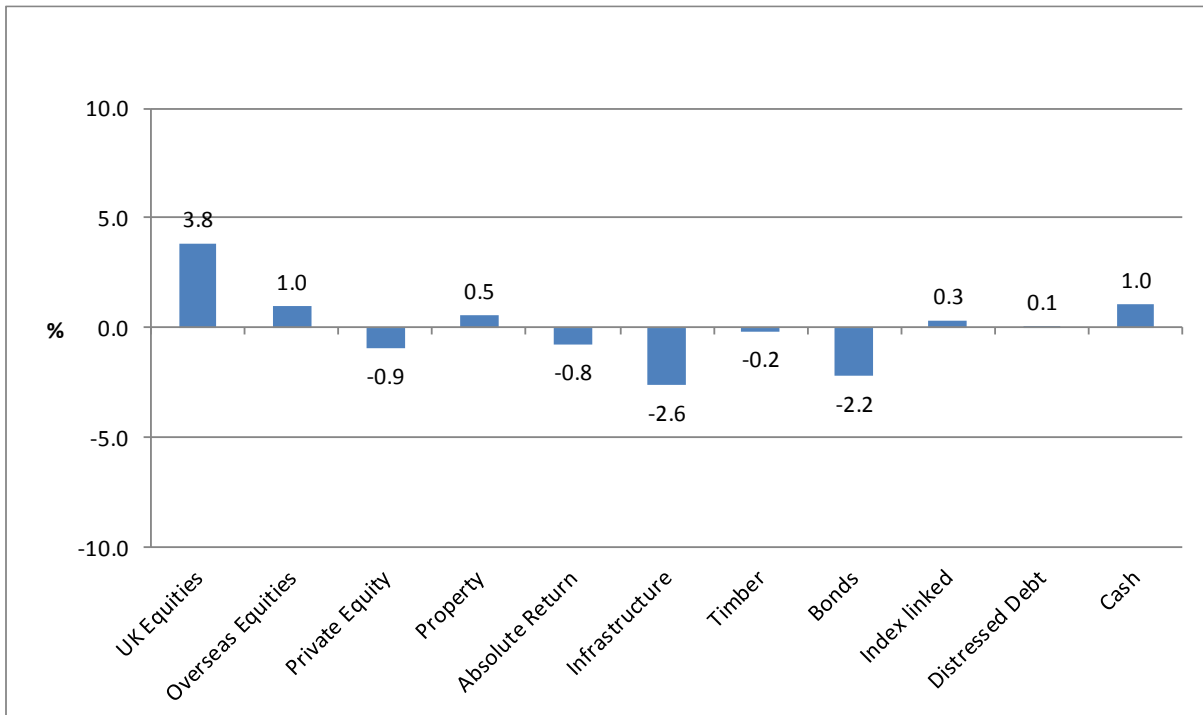
ASSET ALLOCATION

Portfolio Valuation at 30 June 2016

Asset allocation by asset class



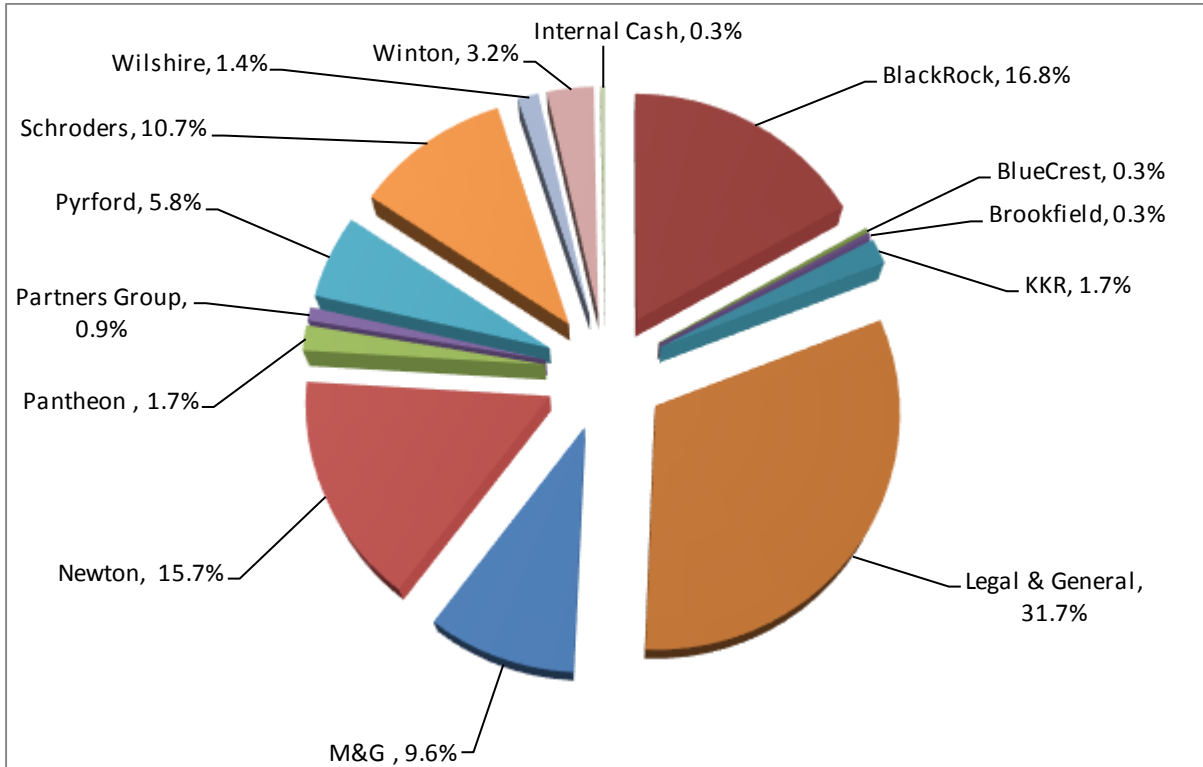
Variance of asset allocation from benchmark by asset class



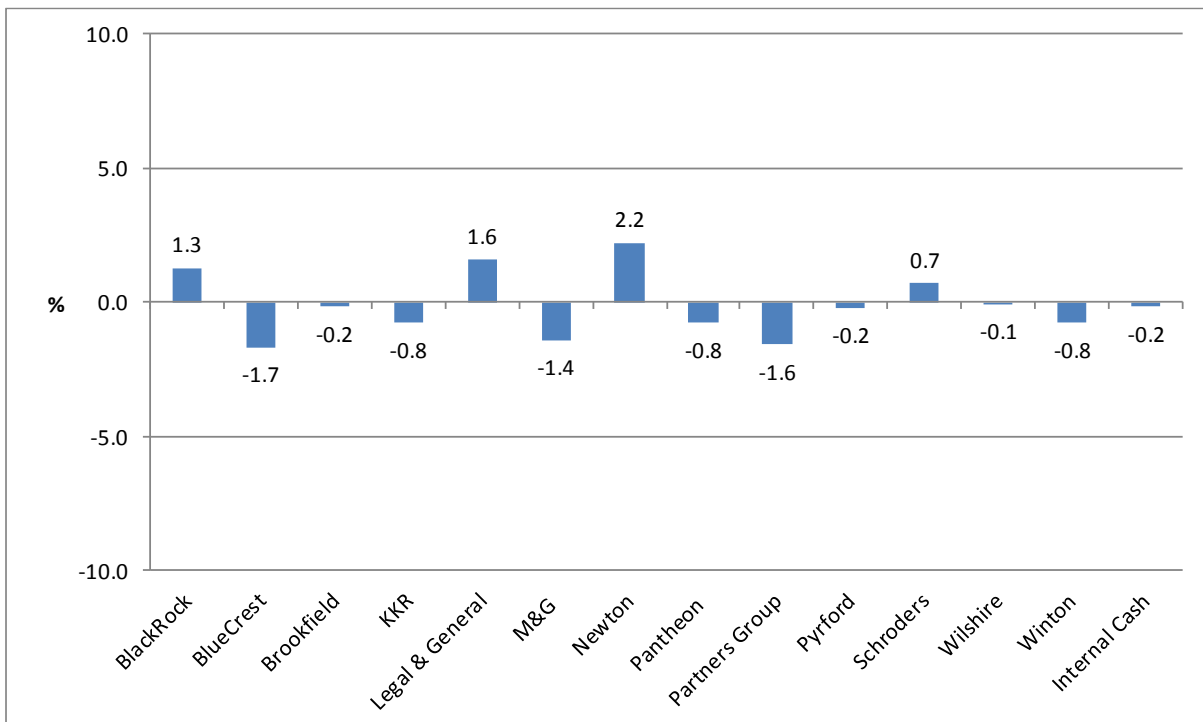
ASSET ALLOCATION

Portfolio Valuation at 30 June 2016

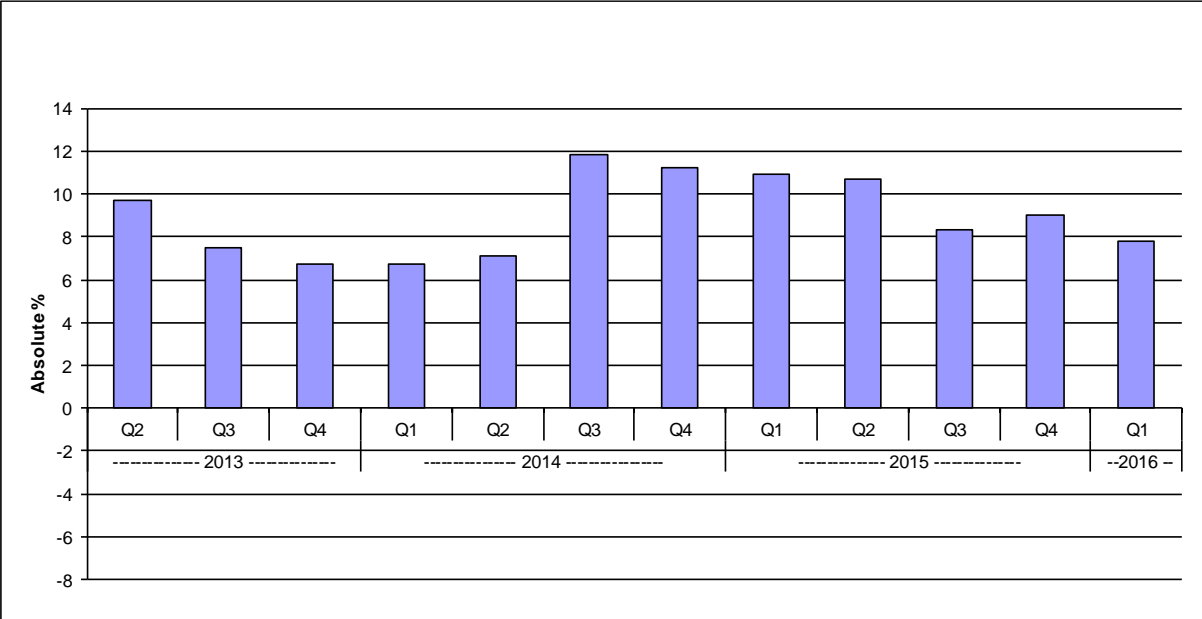
Asset allocation by manager



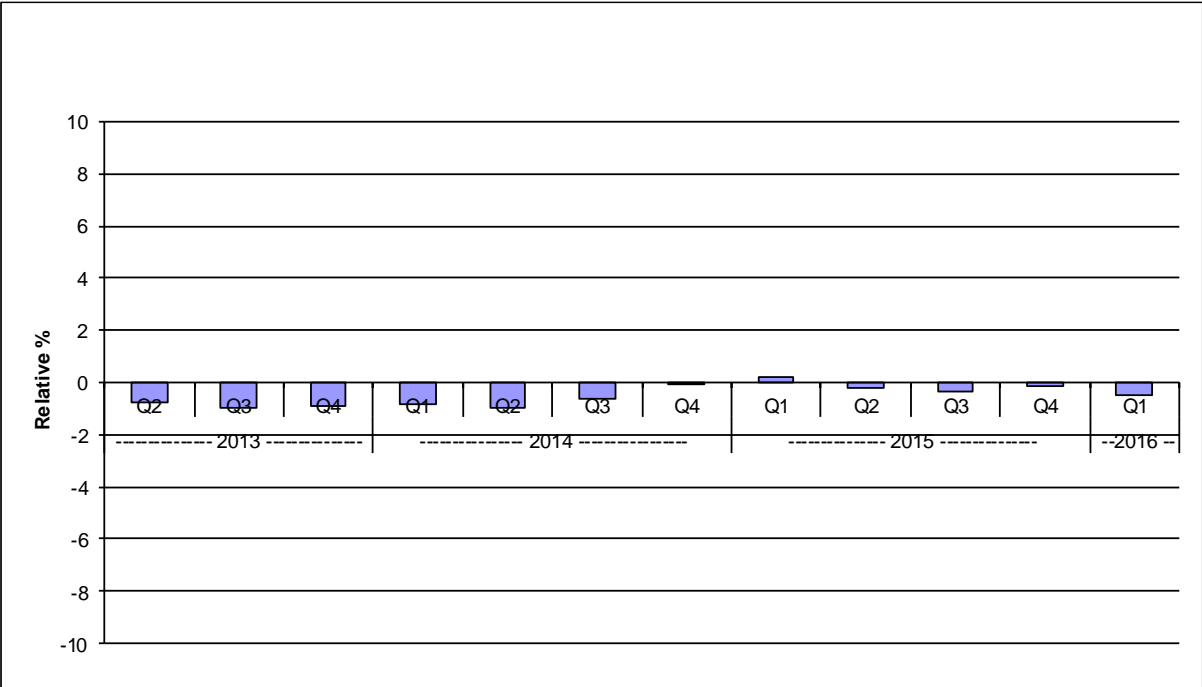
Variance by manager from asset allocation benchmark



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
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