

## Suffolk Pension Fund Committee

<b>Report Title:</b>	Investment Performance – Quarter ending 31 December 2016
<b>Meeting Date:</b>	28 February 2017
<b>Chairman:</b>	Councillor Andrew Reid
<b>Director:</b>	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 December 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 31 December 2016 was £2.550bn, an increase of around £94m from the valuation reported at 30 September 2016.
3. The overall investment return of the Fund in the quarter was 3.6%, just behind the benchmark return by 0.1%. The annual return of 16.4% is just ahead of the benchmark by 0.8%.
4. The Fund's absolute return over a rolling three year period is 10.5%, ahead of the benchmark by 0.4%.
5. An analysis of the Fund's returns can be found in **Appendix 5** in the report supplied by HSBC, the Fund's performance data provider.

### **Action recommended**

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| 6. The Committee is asked to consider the contents of the report and to review the Fund's performance in the quarter to 31 December 2016. |
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### **Reason for recommendation**

7. The Committee reviews 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 asset 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 asset allocation agreed at the 6 June 2016 committee meeting.

Asset Class		Actual	Long-term	Range Guidelines
	£'m	%	%	
UK Equities	468.2	18.4	16.0	+/-5%
Overseas Equities	914.6	35.8	30.5	+/-5%
<b>Total listed equities</b>	<b>1,382.9</b>	<b>54.2</b>	<b>46.5</b>	+/-5%
Global Bonds	372.0	14.6	17.5	+/-3%
UK Index-linked Gilts	107.6	4.2	4.0	+/-2%
<b>Total Bonds</b>	<b>479.6</b>	<b>18.8</b>	<b>21.5</b>	+/-3%
Private Equity	82.0	3.2	4.0	+/-2%
Property	237.3	9.3	10.0	+/-3%
Absolute Return	215.7	8.5	10.0	+/-3%
Infrastructure	58.1	2.3	5.0	+/-2%
Timber	8.3	0.3	0.5	+/-1%
Distressed Debt	29.9	1.2	2.0	+/-1%
<b>Total Alternatives</b>	<b>631.3</b>	<b>24.8</b>	<b>31.5</b>	+/-3%
<b>Cash</b>	<b>56.2</b>	<b>2.2</b>	<b>0.5</b>	+/-5%
<b>Total</b>	<b>2,549.9</b>	<b>100.0</b>	<b>100.0</b>	

11. The Fund continues to be overweight in overseas equities and is now outside the target range. This has been caused through recent strong overseas equity returns and the additional parking of surplus cash with Legal & General while we wait for other mandates to request capital calls.
12. Further alternative investments with M&G were agreed by the Committee on 28 November 2016 which will over-time, reduce the overweight position of the overseas equities within the Legal & General mandate.
13. Infrastructure continues to be underweight whilst the Partners and M&G infrastructure mandates are drawing down capital and KKR is returning mature investments.
14. Reinvestment into the private equity programme was agreed at the 3 June 2015 committee meeting.
15. 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 2016</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	0.9	3.3	-	4.2
KKR	-0.2	-	-	-0.2
Newton	1.3	11.3	-	12.6
Schroders	4.8	9.0	-	13.8
Internal Cash	1.0	16.7	8.1	25.8
<b>Total</b>	<b>7.8</b>	<b>40.3</b>	<b>8.1</b>	<b>56.2</b>

16. The Pension Fund has internally managed cash holdings of £25.9m in cash and cash equivalent products, which includes £8.1m held in a Lloyds Bank deposit account and £17.8m held with HSBC.
17. The amount held with HSBC includes £0.2m held in currencies where a money market fund is not available, the balances do however attract bank interest. £17.6m 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, timber and illiquid debt. This money is used to fund capital calls.
18. In order to reduce the cash held by the Fund, L&G were allocated an additional £20m at the beginning of October, which has increased the UK and overseas equity holdings within the mandate.
19. At 31 December 2016 £36.5m of cash was held in HSBC, which is below the maximum £50m treasury management limit the Committee has agreed.
20. Schroders have a cash balance of £13.8m, £9m in Money market Funds (£4.5m in the Schroders Offshore Cash fund and £4.5m in the HSBC money market fund), and £4.8m in cash.
21. Blackrock operate their own money market fund, Institutional Cash Series, which holds their surplus cash balance of £3.3m there was also a cash balance of £0.9m.
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 third quarter of the financial year, Pantheon received £6.4m, Partners £2.6m and KKR £0.2m for capital calls as part of their investment programme, this was funded through the surplus cash held in HSBC.
24. The main distributions received in the quarter consisted of £1.4m from Pantheon, £4.0m from Wilshire, £0.8m from KKR, £17.8m from M&G and £0.1m from Brookfield.

## Cash Balances held by Suffolk County Council at 31 December 2016

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

Receipts and Payments 2016-17				
	Jun-16	Sep-16	Dec-16	Mar-17
	£'m	£'m	£'m	£'m
<b>Cash in Hand B/fwd</b>	<b>6.1</b>	<b>7.3</b>	<b>14.7</b>	
Contributions and Income Received	26.7	30.8	29.2	
Benefits and Expenses Paid	-25.9	-23.6	-27.0	
<b>Net Income</b>	<b>0.8</b>	<b>7.2</b>	<b>2.2</b>	
Transactions with fund managers	0.4	0.2	-8.8	
<b>Cash Flow in the Quarter</b>	<b>1.2</b>	<b>7.5</b>	<b>-6.6</b>	
<b>Cash in Hand C/fwd</b>	<b>7.3</b>	<b>14.7</b>	<b>8.1</b>	

## Financial Position of the Investment Managers against benchmark

26. The actual valuation of the investments held by each fund manager as at 31 December 2016 against the long term benchmarks are shown below:

Manager	Benchmark Allocation by Manager			
	Holdings	Actual	Long-term	Range
	£'m	%	%	%
BlackRock	421.7	16.5	17.5	+/-2%
BlueCrest	2.0	0.1	-	-
Brookfield	8.3	0.3	0.5	-
KKR	30.0	1.2	1.0	-
Legal & General	870.1	34.1	28.0	+/-5%
M&G	233.5	9.2	13.0	+/-2%
Newton	399.7	15.7	13.5	+/-3%
Pantheon	53.3	2.1	3.0	-
Partners Group	28.0	1.1	2.0	-
Pyrford	138.0	5.4	6.0	+/-2%
Schroders	251.1	9.8	10.0	+/-3%
Wilshire	29.5	1.2	1.0	-
Winton	76.6	3.0	4.0	+/-1%
Internal Cash	8.1	0.3	0.5	+/-5%
<b>Total</b>	<b>2,549.9</b>	<b>100.0</b>	<b>100.0</b>	

27. The Legal & General mandate is currently overweight and outside the upper range for the asset class. This is due to the performance of overseas equities and the temporary investment of for investment (as part of a rebalancing exercise), surplus cash held by the Fund and. The cash has been allocated to other investments which will draw on the capital over time.

28. The M&G mandate is also outside its target range. This is due to the target now including the new commitments which the Committee agreed in November and have yet to be funded.
29. There are several other mandates that are close to their outer limit range. This should be considered as part of the Asset Allocation Review at the March Committee meeting.
30. 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**

31. 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**

32. 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.
33. An evaluation and appraisal of each investment manager's performance for the December 2016 quarter has been produced by Hymans Robertson in **Appendix 6**.
34. On 3 February 2017, face to face meetings were held with Blackrock, Newton, M&G, KKR, Partners, Pantheon and Winton to discuss their recent performance, a review of those meetings provided by Mark Stevens is set out in **Appendix 7**.

### **Markets**

35. The global economic acceleration provided a favourable backdrop for financial assets. The pickup in global economic activity was marked by a resurgence of growth in China, improved global industrial activity, abating deflationary pressures, and continued economic expansion in the United States. An in depth review of the markets for the quarter has been produced by Hymans Robertson in **Appendix 8** covering the UK and overseas equity markets, interest rates, inflation and the credit markets.

### **Pension Fund Top Holdings**

36. The top 10 holdings in the Pension Fund are set out overleaf. These holdings in total are worth £1.395bn, which is just over half the fund at 54.7% as at 31 December 2016.

<b>Position</b>	<b>Investment</b>	<b>Value £'m</b>	<b>% of Fund</b>
1	L&G FTSE RAFI AW 3000	272.2	10.7%
2	L&G UK Equity	194.5	7.6%
3	M&G Alpha Opportunities	187.6	7.4%
4	Blackrock FIGO	184.4	7.2%
5	Pyrford Global Mutual Fund	138.0	5.4%
6	L&G 5 yr Gilts	107.6	4.2%
7	L&G Europe Equity Hedged	101.1	4.0%
8	L&G North America Equity Index	97.7	3.8%
9	Winton Futures Fund	76.6	3.0%
10	L&G Global Emerging Markets	35.6	1.4%

37. 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.
38. The top 10 equity shares held by the Pension Fund are set out below. These holdings in total are worth £140.4m and represents 5.9% of the fund.

<b>Position</b>	<b>Investment</b>	<b>Value £'m</b>	<b>% of Fund</b>
1	British American Tobacco	23.6	1.0%
2	Royal Dutch Shell	18.8	0.8%
3	Microsoft	18.6	0.8%
4	Wolseley	16.4	0.7%
5	Alphabet	13.6	0.6%
6	Apple	11.3	0.5%
7	Citigroup	11.0	0.4%
8	Rio Tinto	10.1	0.4%
9	Vodafone Group	8.6	0.4%
10	RELX Group	8.4	0.3%

39. RELX Group (formerly known as Reed Elsevier) is a multinational information and analytics company operating in four market segments: scientific, technical and medical; risk and business analytics; legal and exhibitions.

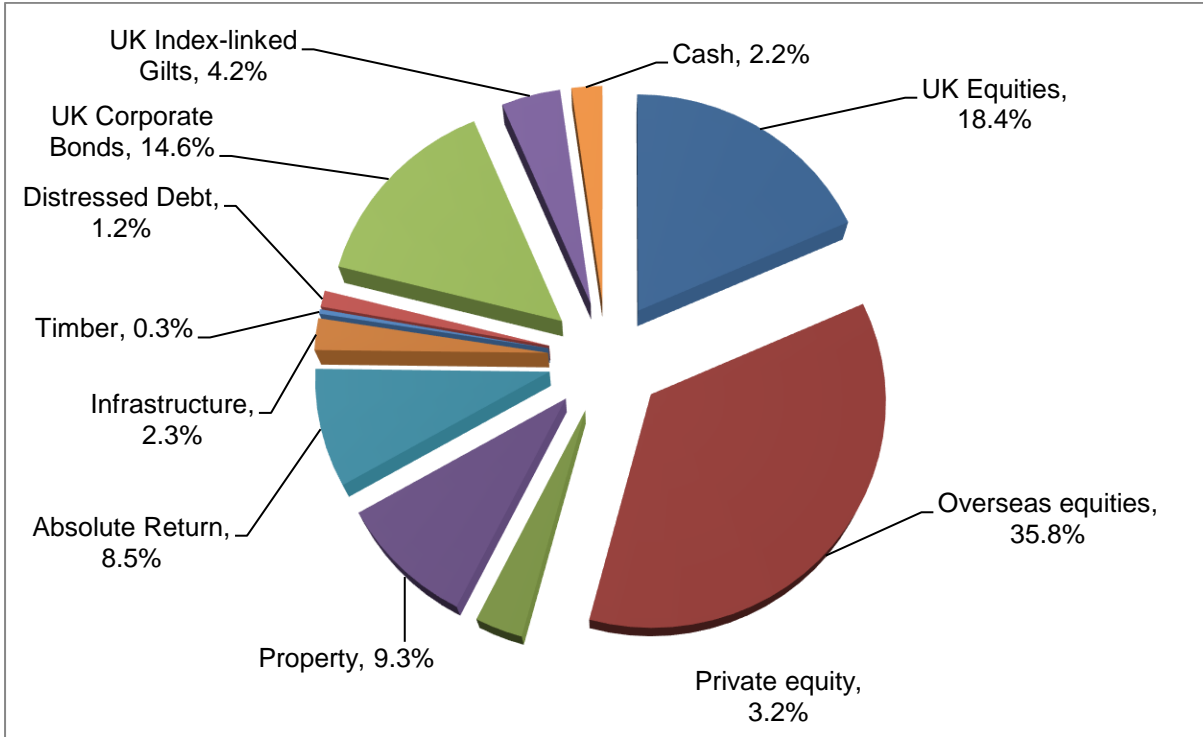
#### **Sources of further information**

40. Quarterly Performance Report to 31 December 2016 – HSBC

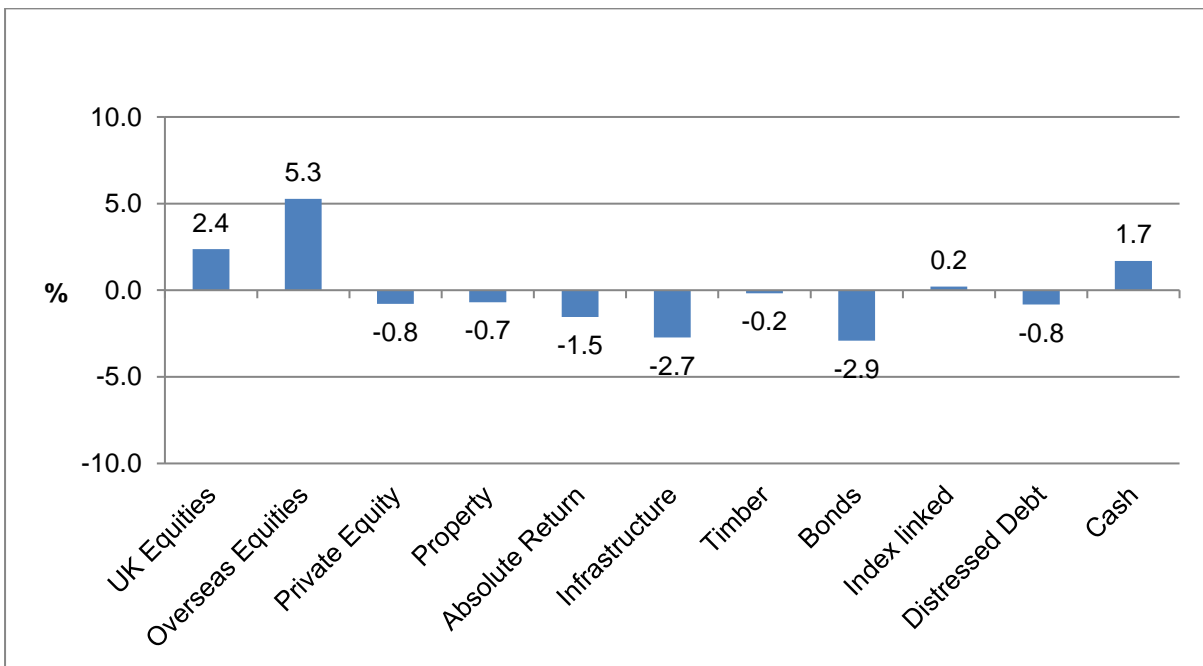
# ASSET ALLOCATION

Portfolio Valuation at 31 December 2016

## Asset allocation by asset class



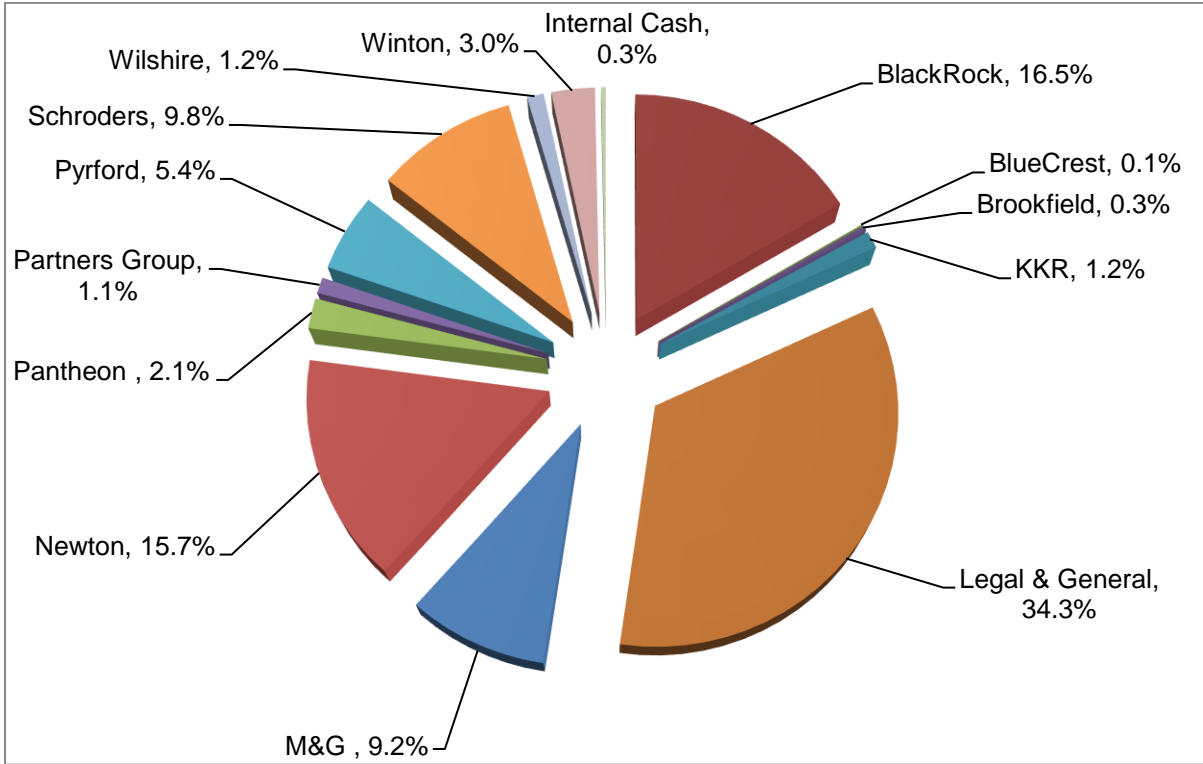
## Variance of asset allocation from benchmark by asset class



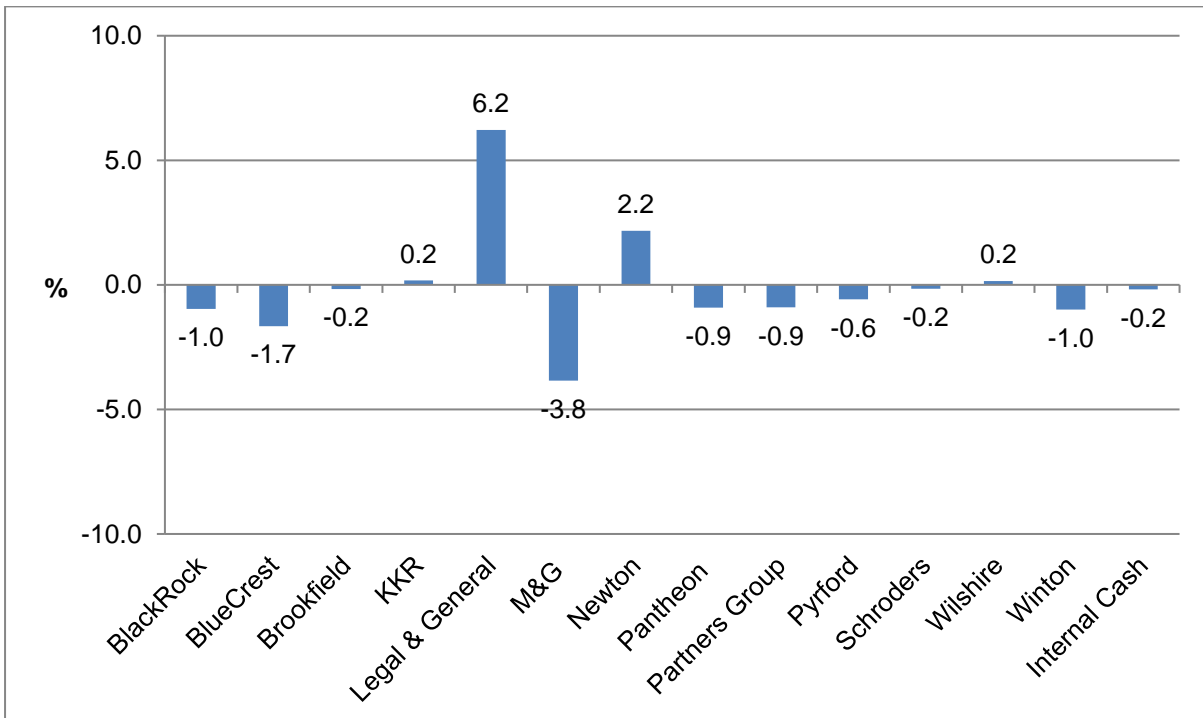
## ASSET ALLOCATION

Portfolio Valuation at 31 December 2016

### Asset allocation by manager

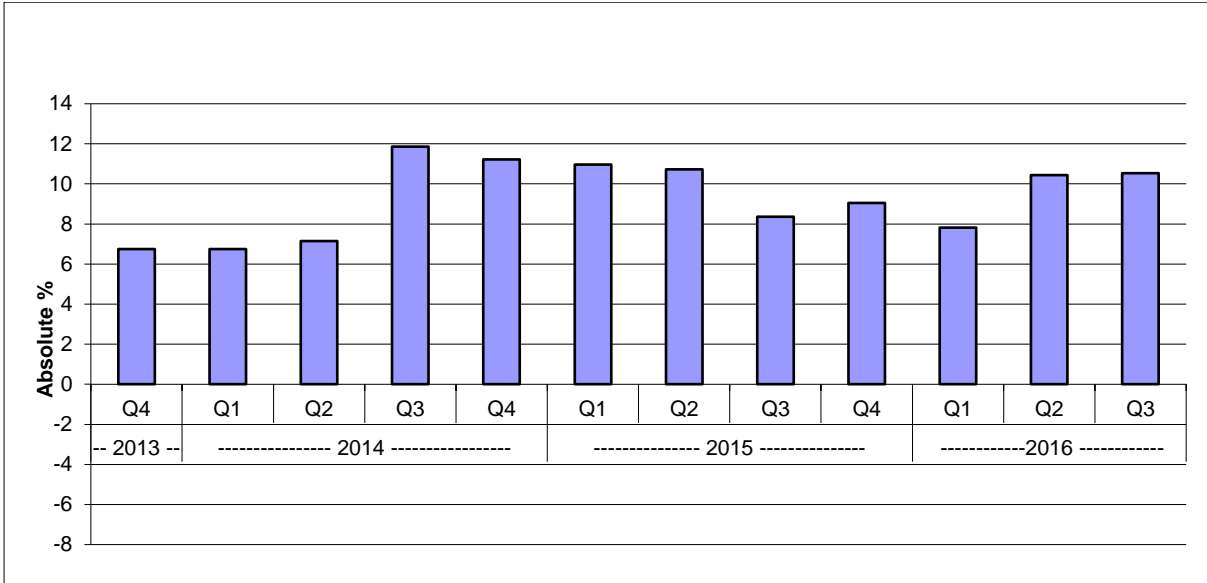


### Variance by manager from asset allocation benchmark

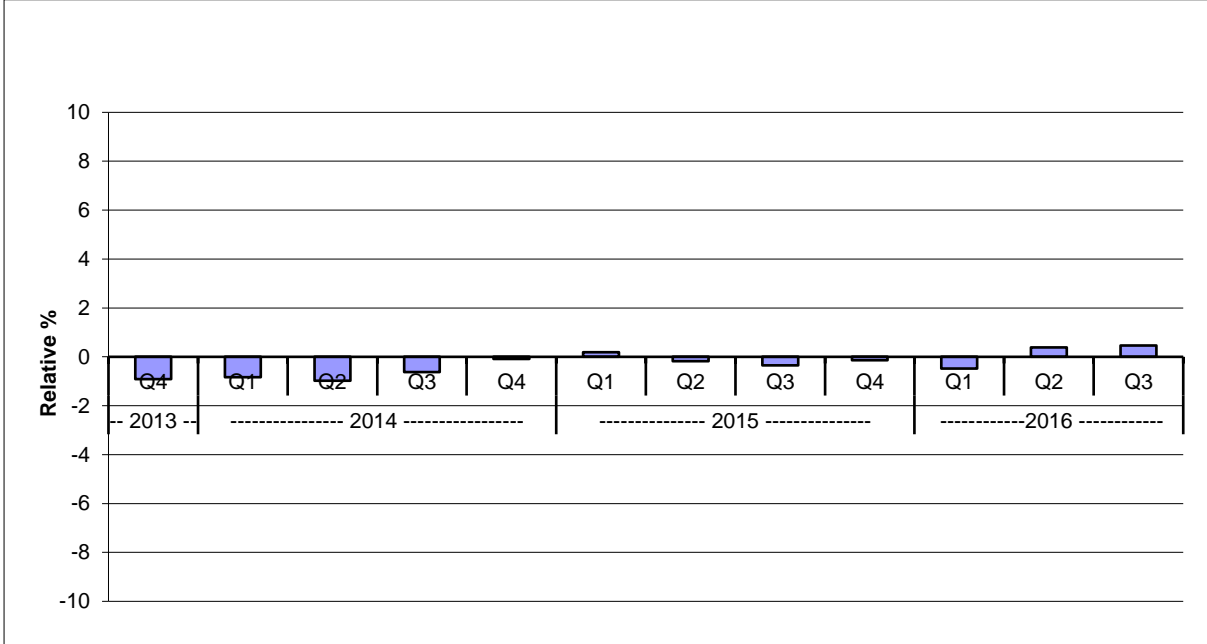




**Absolute whole Fund rolling 3 year performance**



**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	Illiquid Debt	8% p.a.	Sept 2012
M&G	Infrastructure	15% IRR	Jan 2017
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