Suffolk Pension Fund
Manager meetings: London 3 February 2017

This report covers the face-to-face fund manager meetings held with eight of the managers employed by the Suffolk Pension Fund. Partners Group were acting as hosts on this occasion. The meeting covered both the final quarter of 2016 and the year as a whole.

The final quarter once again proved to be a volatile period for markets and included the US presidential election. Most managers included an update on the on-going impact of the 'Brexit' result for the UK economy and the implications for Europe as a whole. Given the result of the US presidential election attention was also focused on the implications of various tax changes that have been mooted by the in coming president during the campaign and how these changes could influence corporate behaviour.

On this occasion managers involved with the 'alternative' mandates of the Suffolk Pension Fund were well represented. Reports were received from infrastructure managers KKR and Partners Group as well as private equity manager Pantheon and systematic hedge fund Winton.

Blackrock: Active UK equity mandate (blended style growth orientation)

Blackrock arrived with a team of three. Imran Sattar (equity fund manager), James Edwards (fixed income strategy) and Peter Hunt (relationship director). Peter started the meeting with a quick run through of the fourth quarter and noted that as well as a large amount of market volatility the markets have started to anticipate a more reflationary economic climate. Bonds and equities headed in opposite directions, with US equities particularly strong, whilst long dated bonds saw prices fall and yields increase. This reflationary theme masks to an extent the high levels of investor uncertainty that still exists. Blackrock still believe we are living in a low growth and low return environment albeit an environment that offers good active management opportunities.

Imran picked up the theme more specifically for the UK equity market; there are still a number of worrying underlying drivers to the market. The Blackrock long term view which will influence portfolio positioning over the medium term, is that we live in a low growth world, a situation that will be around for a long time with low levels of interest rates continuing. The current pressures on inflation are transitory, the big picture trends such as poor demographics (in most Western economies) and the influence of technology disruptors destroying pricing power in many areas of the market will reassert overtime. The high amount of debt at government and personal level is also bad for growth.

In terms of the recent market, it has been very narrow in terms of what is driving returns. The oil and mining sectors that are so important for the FTSE100 have been extremely strong driving on the back of recovering commodity prices (in part a function of stronger Chinese demand) and a strong dollar. The largest contributor to portfolio returns over the quarter was mining group Rio Tinto, which returned 23% in response to the price of iron ore doubling on strong Chinese demand. By anticipating such moves Imran has managed to insulate the portfolio from the sharp change in market leadership witnessed over the quarter. It should be emphasised that any portfolio that had enjoyed good relative returns over recent years was vulnerable to being left behind as the market embraced a more cyclical mind-set. For Imran to deliver outperformance again this quarter after such a strong recent run is worthy of comment.

As mentioned, in terms of performance the portfolio continues to do well. The final quarter delivered a return of 5.3% ahead of the benchmark 3.9%. The one-year return of 17.3% was 0.5% ahead of the benchmark. Blackrock have delivered returns ahead of the benchmark over all periods with a particularly strong three-year result, which now stands at 3% per annum ahead. If an exemplar of active management in the UK were needed, then this portfolio would be a good candidate.

The meeting then went on to cover a number of stock specific themes, including Imran holding more positive thoughts on Tesco, primarily because of the Booker deal and share swap. BAT has been added to, after this defensive stock was de-rated on the Reynolds deal. The market initially feared BAT had paid too much, whereas in fact the final price paid (after adjustments for a potential new tax treatment) was better than many feared. Other stocks highlighted were companies that still possessed pricing power, a rare commodity in a globalised world. Rightmove and Auto trader are two such companies held in the portfolio. This was overall a positive meeting from a manager who seems to have hit the ground running after taking over from James MacPherson.

Blackrock Fixed Interest (Global absolute return, FIGO)

The rest of the meeting covered the fixed interest mandate FIGO and was presented by James Edward, a strategist on the team. As a reminder, this is a global fixed interest mandate with no fixed benchmark but with a target return of +4-6% over cash achieved without taking risks associated to changes in interest rates.

James covered performance which has picked up recently and after a return of 0.67% over the forth quarter now stands at 3.16% for the last twelve months compared to a cash return of 0.5%. In terms of attribution the best strategies were USD securitised debt and US absolute return strategies. Due to a difficult start for this strategy, the since inspection return for the Suffolk Pension Scheme remains only 1.56% p.a.

Given the size of the market most of the opportunity currently seen for the fund is in USD and as the fund hedges USD exposure into sterling for the share class the Suffolk Pension Scheme is invested in, the cost of this hedging is a factor when it becomes a drag on performance. We were shown a chart by James that demonstrates that the drag to performance of the hedging strategy now stands at close to 1% per annum. This has risen from a 0.5% drag over the last year and was included in the 3.16% return quoted above.

As recently as December 2015 the cost of this type of hedging was close to zero. Over time hedging costs will vary but they are currently unusually expensive which Blackrock explained was due to a supply demand imbalance. USD denominated assets are strongly in demand from sterling based investors and there will need to be a reversal of this for the hedging cost drag to disappear. As things stand, it is likely to be a performance drag going forward. I think this issue probably needs further digging into and I don't remember it being mentioned as a risk factor when the initial strategy was being presented to the committee.

In terms of strategy, the fixed interest team are subscribers to the reflation idea and expect yield curves to steepen particularly in the United States as inflation returns. The team also favour US credit where probable changes to the tax treatment of cash held overseas by US corporates will have a positive effect on corporate debt levels. The thinking being that this will limit corporate bond issuance going forward to such an extent that the US bond market might even shrink, leading to a positive affect on prices.

Overall, unlike M&G (see below) FIGO does not feel like a strategy that is yet firing on all cylinders. Performance is certainly improving and it is still early days. However it would be good to explore further this drag on performance that now seems present from the hedging activities, as I'm not totally convinced I fully grasped the details.

M&G Investments: Alpha Opportunities Fund (active credit), Debt Opportunities fund (distressed debt & restructuring)

Andrew Swan and Maria Stott (client service) presented the report from M&G joined on this occasion by Richard Ryan (senior credit fund manager) a fund manager on the Alpha Opportunities fund. Maria started the meeting with an update on the various funds that the Suffolk Pension Fund has investments in, including several new commitments. As a reminder these are a £60m commitment to the Greenfield Infrastructure fund, £25m to the Illiquid Credit fund and a £25m commitment to Debt Solutions Fund. The Suffolk pension scheme's commitment to DOF I is now down to £10m as the fund continues to return cash. The original 15% total return target is likely to be achieved, however a one-year extension may be required to maximise value. DOF II has also entered its distribution phase currently standing at £8m with an additional £2.5m expected in the coming months.

Maria went on to mention that the Alpha Opportunities fund had been 'soft closed' to new investors having reached £6.3bn; existing investors are still able to top up allocations if required.

The Alpha Opportunities presentation started with performance, after a very strong 2016 where the fund delivered 6.7% gross of fees compared with a LIBOR return of 0.4% the since inceptions figures (from May2015) now stand at 3.42% per annum with LIBOR at 0.44% over this period. By far the most significant time for this investment was the early 2016 period where credit markets entered a period of extreme risk aversion. M&G having built up substantial "dry powder' deployed this efficiently into a market containing many willing sellers. Many of the credits purchased at this time have subsequently enjoyed a sharp rebound, which can be seen in the strong 2016 returns.

M&G believe we could easily have another 'wobble' like last year in credit markets, in fact this is likely as investors continue to chase returns at higher and higher levels of risk. Given the sharp run up in credit prices and the emerging risks, M&G have once again increased its level of defensive assets which now stand at 35%, its highest level since the summer of 2014.

Richard mentioned that the team did nothing around the two weeks before and after the 'Brexit' vote and also sat back on the various gyrations around the Trump election result. I took this to indicate that the team are wary of being 'whipsawed' during periods where markets are acting irrationally and also prone to a certain short term 'schizophrenia'. Richard was keen to point out that even if they had guessed correctly on both the 'Brexit' result and the election of President Trump (which they did not) they would have got the markets reaction wrong anyway!

Richard also talked at length about the problems inherent in a banking system that requires more and more cash reserves to satisfy regulators while simultaneously central banks and governments want more lending to stimulate economic activity. The incompatibility of these two aims is partly responsible for the slow growth being seen worldwide and adds to the general level of risk within markets.

Possible affects of the various potential tax polices coming from the new US administration were also discussed, including potential changes to the treatment of corporate tax for cash held offshore. From a credit perspective, the treatment of the "debt tax shield" which may be under threat, would more obviously affect high yield bonds, those from companies with debt levels many times that of profits. A significant tax change could destroy the equity cushion in such companies. It would however discourage high leverage companies. Many companies would be materially affected by significant changes to the treatment of interest on debt. The whole financing model of utilities would be dramatically affected. Needless to say the M&G credit team are spending a great deal of time on this issue.

Overall M&G appear to be delivering on their promise to deliver returns from bottom up active management of credits. They dynamically adjust their risk exposure and look to accumulate 'dry powder'; by selling during positive market phases then looking to deploy when risk aversion creates value and willing sellers emerge. Underpinning this strategic thinking is what appears to be a very credible credit research capability, focused on adding value by identifying mispriced bonds. This strategy does appear to be delivering what was hoped for when appointed by the committee.

Winton (Hedge Fund, systematic investment style)

Jonathan Anayi (Head of UK clients) and Bhavik Shah (client strategies) presented the report from Winton. This was the first time that Bhavik has attended a review meeting with the Suffolk Pension Fund. After a very quick run through of the structure of the firm and a reminder that the research function has now been fully separated from the investment management function, Jonathan covered the latest performance numbers.

The last time we met with Winton was in October and performance was disappointing. Unfortunately there has been no improvement up to the end of the year. In the fourth quarter the strategy fell 2.3% and this has resulted in a negative return of 3.1% for the year as a whole. This performance has reduced the since inception return (from October 2012) to 4.8% per annum. Winton target a Sharpe ratio of one. In simple terms that means they target one unit of return per unit of risk. Given the 10% risk target they aim for, we would hope for a return of close to 10% per annum on this basis.

In the report the annualised standard deviation of monthly returns (a measure of risk) is 9.0% close to target, unfortunately the return of 4.8% per annum during this same period is disappointing. One piece of good news is that the strategy itself continues to exhibit a very low correlation to the major asset classes of bonds and equity as well as commodity prices and the US dollar. Low correlation of this type is one of the reasons funds like Winton are invested in by Pension Funds such as Suffolk with the aim of diversifying other assets within the overall fund.

The main driver for the recent disappointment in performance has been the negative performance of the 'cash equity' component which has detracted 3.4% from performance. Simply put, this is a strategy of single company shares (not the index futures held elsewhere in the Winton fund) constructed to be market neutral, which I take to mean Winton run no 'beta risk' on the basket of shares. Risk is taken on both individual companies (held both long and short) and sectors (I will need to check if they run sector risk with Winton).

Other strategies including energy futures and precious metals also returned negative figures over the year. These negatives outweighed positives from currencies and bonds both of which were strong over the period. There was some discussion about these returns and it was noted that the introduction of the 'cash equity' component is something that although introduced a number of years ago does represent a slight departure from the original Winton investment approach and in recent years has become a much more significant element of the risk budget. Concerns over the performance of the strategy were conveyed to Winton and although there is nothing they are seeing that indicates any systemic issues with their methodology they did acknowledge that returns were disappointing

The meeting concluded with a brief discussion on fees and how these might be affected by any increase in LGPS assets under management, given the potential that exists under future pooling arrangements. There was some discussion at the end of the meeting about the possibility of Winton hosting the managers meeting at a future date. This would give them the opportunity to introduce some other members of the team and would also grant them some extra time to expand on some of the processes they employ in the fund. This in my opinion would be a worthwhile exercise although it should be noted that given the inherently complex, proprietary and frankly opaque nature of this fund (and similar funds) there will always be some difficulty in fully grasping the drivers of returns whether positive or negative.

KKR (Global Infrastructure)

Alex Fletcher (client director) and Guido Mitrani (Principle, London) presented the report from KKR. The report covered returns up to the Q3 2016 with the Q4 results not released until mid February. Alex confirmed that the portfolio continues to deliver to plan. The fund has 93% of the committed capital invested, with the remaining capital reserved for follow on investments. The most significant development since we last saw KKR has been the sale of the Spanish district heating company Coriance Group, to First State Infrastructure fund.

The distributed paid in (DPI) figure is now close to 70%, the increase a result of the Coriance sale, which realised € 232m for the fund at a gross IRR of 28.8%. This DPI figure could reach 80% during 2017, assuming divestment plans remain on track. Suffolk Pension fund will have already received back 80% of its initial investment before the year is out, if this is achieved.

In terms of the overall performance, the fund continues to perform as expected. Given maturing cash profiles, initial dividends were received from a number of holdings; consequently the portfolio is now yielding 3.5% on an annualized basis. Overall investments valued at the end of Q3 2016 show a net IRR (internal rate of return) of 10.6%

The report contained updated information on how the assets that remain in the fund are performing. ELL the european locomotive leasing company created from scratch for the infrastructure fund by KKR is now leasing eighty locomotives and is generating a running yield of 10% on an annualised basis. Guido mentioned that for ELL to grow further the company might require follow on capital. SunTap Energy I and II the solar projects are performing well in the US with recent new contracts signed for SunTap I on significantly better terms, the yield paid during 2016 is a return of 18.5% on the initial KKR investment.

SABA logistics is now fully divested of its logistics business and is now a pure car park operator. The dividend yield of 2.3% is expected to increase meaningfully from now on as the company operates from more sites and at lower levels of leverage. Given that profits (EBITDA) have risen from $50m to $100m since purchase and that this asset is trading substantially ahead of the original eight year investment plan it was suggested that profits might be realised through a sale sooner than expected.

The meeting concluded with a discussion on potential new tax treatments for US debt, KKR believe that if this happened at all, it would only apply to newly raised debt and the market would adjust accordingly. Alex finished off with some information on KKR Infrastructure III, on which they are expecting to start raising money towards the back end of this year. Overall a positive update with the fund remaining on course to deliver the expected returns and with substantial amounts of the original investment already returned to investors.

Partners Group (Global Infrastructure)

Sarah Brewer (client director) and Rob Jans (infrastructure team) presented the report from Partners group. Rob began the meeting with an update on the market for global infrastructure. Last year was very strong for fund raising with 80% of the capital raised for European funds. This has led to further increases in competition and high valuations. Partners Group continues to search globally for areas where valuations are relatively more attractive. The report contained a graph showing the difference between regions in terms of valuation and expected earnings growth, within various infrastructure categories. The graph highlighted the areas of focus for Partners with their relative value approach to infrastructure investment.

Some examples were given of areas of the market that the team are seeing as good opportunities. These include renewable energy in attractive markets, western and central European mobile broadband access and given the correction in commodity and power prices opportunities are becoming available for acquiring non-core contracted assets from oil & gas majors. The market for infrastructure is changing and opportunities are increasing as new business models are adopted. The separation of asset ownership and service provision is being adopted by new industries. Vodafone was given as an example; where previously the company had owned its infrastructure assets these are now separately owned and Vodafone is a pure service company.

In terms of the portfolio as at November 2016, commitment levels (that is investments agreed as a % of money raised in the fund) had reached 86%, which compares to a figure of 73% in May 2016. Progress in terms of the actual investment level was less dramatic with 63% invested up just 3% points from the May figure. The net multiple on money invested is now x1.18 marginally up from x1.17. The annualised net return since inception is now 9.6% up from 9.4%. This represents slow progress after the meaningful uplifts reported at the last meeting in August 2016. However the overall shape of the portfolio appears on track at this time. The target return over the life of the fund remains 8%-12%.

Partners always include a slide on portfolio assessment. This showed that of the thirty-five investments in the fund two are categorised, as “with issues” this is a US gas fired power station that was unexpectedly closed for urgent maintenance (this was covered in the last report.) and an Indian infrastructure investment that has had some currency difficulties (more details were not given).

The portfolio looks in reasonable shape with five assets above plan (down from ten in May) and twenty-eight either on plan currently or expected to be after the first assessments are made. Assuming I am reading the chart correctly this means that since May, five investments have moved from the “outperformance” classification back to “on plan” this is something worth checking next time we meet with Partners. This part of the presentation concluded with some slides on the cash flow outlook for the fund and at this stage the fund is expected to turn cash flow positive (this is more cash coming back to SPF than going out) by the second half of 2018.

The meeting concluded with some discussion on pooling, Partners are very involved having 37 LGPS clients and are actively involved with the cross-pool groups. As Partners were acting as hosts for the day the opportunity was taken to introduce Chris Forbone who gave a very interesting presentation on the private lending activities of Partners and the characteristics of the Partners Illiquid credit fund.

Pantheon (Private Equity programme)

The team from Pantheon presenting the report consisted of Rob Barr (partner), Mike Mellody (associate) and Helen Steers (partner). Helen leads the Pantheon European primary investment activity as well as sitting on the global investment committee. The meeting started with a run through of the private equity market conditions. There has been a great deal of fund raising and the majority of this has been with the very large 'mega funds'. Not surprisingly these funds appear to be paying very full prices for deals and is where a lot of the 'dry powder' is currently sitting. The availability of debt remains healthy, as has been the case for a few years now. From a Pantheon perspective the mid market area where they tend to focus is much more reasonable in terms of pricing and plenty of opportunities remain for investment.

Rob Barr went through the aggregate performance of the entire Private Equity programme that Pantheon manages on behalf of the Suffolk Pension scheme. The current valuation shows a multiple on invested money of x1.53 (x1.45 last reported) and a net IRR of 11.6% (10.5%) this shows an outperformance of public markets (in this case MSCI World) of 1.60%. As mentioned the last time we met, this is below what would be expected given the illiquidity premium of this asset class compared to public markets.

However, Pantheon remain confident that over the life of the programme the returns will strengthen from here with public markets unlikely to continue their recent strong run. Over the medium term the expected 3-5% outperformance of public markets remains a realistic target. It should be noted that in terms of the drivers of these recent returns, although there has been a positive uplift on valuations there has also been a significant benefit from currency movements and without this currency affect returns would be lower.

Pantheon International Participations Plc (PIP)

The final part of the meeting covered the permanent capital infrastructure fund managed by Pantheon. This is an open ended Infrastructure investment trust. In 2007 Suffolk Pension fund purchased 600,000 ordinary shares. In January 2017 a further investment in 185,000 redeemable shares was made. The original investment has proved a good one with the value of the shares increasing by 91% over the period significantly above the return achieved by the FTSE All Share over the same period.

Recent performance had been very positive with the share price now over £20 for the first time and with assets at a record £1.3bn. The 70% of assets that are US dollar denominated have been very beneficial as has been corporate activity within the sector that has focused investor attention on this type of fund. Consequently the shares have been re-rated with the share price discount to the underlying NAV (net asset value) of the assets down to 17% from a previous 30%.

Newton: actively managed global equity

David Moylett (client director) and Paul Markham (fund manager) presented the Q4 2016 report from Newton. The meeting started with David giving an overview of the global market conditions seen during final quarter of 2016 and the year as a whole. There has been a major rotation into cyclical sectors during the year. Newton presented a chart showing that the top three performing sectors of 2015 (healthcare, consumer staples and discretionary) were the lowest returning sectors during 2016. To compound the affects of this rotation three of the four worst performing sectors of 2015 (energy, materials and financials) were the three best performers in 2016.

The question posed was, why did market rotate so decisively? It seems that the underperformance from the healthcare sector first began when a Clinton victory in the US election was expected and there were market fears that pricing pressure would be applied to the colossal US healthcare market. Post the election, it seems that President Trump has now also started talking about pricing, so any post election bounce was short lived. The other rotations seen most dramatically in the fourth quarter can be explained in terms of what is now thought of as the 'reflation' trade. That is a promise of higher government spending and lower taxes, driving both faster economic growth and inflationary pressures. In the US it also encompasses a more benign regulatory environment for the financial sector.

Newton believes that markets like Trump at this stage, probably because of a desire for something different and perhaps a move back to more normal economics, and a return to old style economic cycles, rather than anything more specific. This may or may not happen, he might be reflationary in policy terms, which might mean higher growth, however that might not come to fruition. Less regulation on the financials could be interesting at least in the short term, but this comes with caveats, his approach to bankers might end up being bigger carrots but come with bigger sticks for misbehaviour.

Newton see financials as the one value trade that remains and would benefit from a steeper yield curve going forward which might present an investment opportunity. Later in the meeting Paul gave a few examples of where they are closely monitoring some financial stocks including RBS (good management, low valuation, near term resolution to legal overhang in the US) with the possibility of changing their underweight position in this sector in the near future.

In terms of performance this has been a difficult period. The fourth quarter of 2016 saw the portfolio return 2.5% against a benchmark of 6.4%. This compounded what was already a difficult year. Performance over this period was 20.9% against a benchmark of 28.7%. Paul commented that the last quarter has been the only time where every region contributed a negative relative return to the portfolio. Although this has damaged the medium term performance, Newton remain ahead over all other periods. It should be pointed out that it is the relative returns that are a recent disappointment. Given the fall in sterling, global equity returns have been very strong for the un-hedged sterling based investor.

Although 20.9% for 2016 is disappointing in relative terms, it still represents a remarkably strong return given the level of inflation. It was also confirmed that in terms of the general structure of the portfolio it remains largely the same. Technology for instance is still an area Newton favour. They have been conscious of not radically changing positions even as the market has rotated because of the danger of being 'whipsawed' on any post Trump market fatigue that sees a retrenchment in the strongly bouncing cyclical sectors.

In terms of how Newton see the world they remain consistent. The structural headwinds of abundance and demographics, combined with ultra low interest rates, which allow ' zombie' companies to avoid closure, will re assert themselves once more. This will continue to dampen inflation going forward. The era of central bank manipulation and quantitative easing is not over yet. Although markets may believe we are into a new fiscal phase, we could have both this and ultra-loose monetary policy operating together. If this was to happen then inflation may indeed become an issue in the future.

The balance of the meeting covered a wide range of subjects including the possible affects of changes to the repatriation tax which US corporates will pay to repatriate cash held overseas. President Trump wants to encourage this cash back into the US however he might also require a US reinvestment caveat on returned cash. Last time this was tried (under Clinton) repatriated cash was spent on share buy backs.

The European situation remains complex even without 'Brexit'. If elections in France or Netherlands go to anti EU parties, this alone could spell the end for the EU as it is currently constructed.

As always with Paul and David, this was a very open and honest account of where things stand and why returns have been as they are. The extent to which markets have rotated has clearly damaged the recent excellent performance of this portfolio and the team are open to reviewing their stance, if the world continues down the post Trump reflationary euphoria and genuinely new economic trends emerge. However, thematically Newton are sticking to their major themes covered in previous reports. We can see how active management is about taking benchmark risks and this can (and will) deliver periods of underperformance. The key is the extent to which the team quickly analyse the extent to which the new environment is genuinely different (or not) and then position to take advantage of this.

Schroders (Multi Manager indirect property)

The report from Schroders was presented by Geoff Day (client director) Naomi Green (property fund manager) and Patrick Bond (property fund manager). Patrick presented a market overview. The panic post 'Brexit' resulted in a number of retail funds reacting to both real and perceived selling pressure and the property market experienced a sharp fall in the immediate aftermath of the result. This initial shock proved short lived and the market has now all but stabilised.

However, central London offices have remained under pressure partly because of the uncertainty about relocation of London based financial services. It is also the case that even before the referendum, central London office space was considered an area of the market that had become vulnerable to a set back, due to high levels of supply and expensive valuations. Schroders have an official forecast that 45,000 jobs could be lost as a result of the loss of European 'passporting rights' in financial services. It was pointed out however that this forecast was made directly after the referendum result and as with a number of other forecasts made at the time might be modified over time.

What does appear more certain is that given the above trend valuation growth seen in central London offices in recent years that West End and Mid town property will recover much faster than the City and Docklands areas. On the subject of the wider market Schroders expect real estate yields to continue to track gilts maintaining the current 3.5% spread over 10 year gilt yields. Given this relationship, any sharp rise in gilts yields possibly from inflationary pressure would provide a significant headwind for property values.

Naomi then presented the Schroder in house property sector forecasts for the period up to the end of 2020. In summary these show a total annualised return of around 4% for the wider market made up from average yields of 6% offset by a 2% fall in capital values. As would be expected the worst performing sectors are forecast to be city offices, 1% total return from 4% yield, -3% fall in capital values. Retail is also an area forecast to be under pressure with capital value falls in shopping centres and both large and small high street shops. They are much more confident in the regional office space which is less affected by global events and has been under invested for a decade or more, fuelling a supply shortage. Here forecasts are much healthier with the sector forecast to deliver 7% per annum up to 2020 with income contributing just short of 6% per annum, combined with capital growth just above the 1%.

In terms of the portfolio this now stands at £257m and has investments in 20 separate funds. At the time of the meeting the cash level was reported as 5.1% however pre existing commitments (including to a regional office fund) reduce this figure down to 3.0%. Over the last three months and full year the portfolio has underperformed the benchmark by 0.4% returning 1.9% and 2.4% respectively. The three-year return is on the benchmark at 10.6% per annum. Over the longer periods the Schroder portfolio shows annualised outperformance of around 0.4%. A number of slides were shown detailing the attribution between the various funds to the overall return. The relatively high costs and time delay transacting in property can be seen on the three year attribution figures where the largest negative influence was holding cash, detracting 0.4% per annum from returns. The high frictional costs associated with re positioning the portfolio are expected to be less of a drag going forward.

The meeting concluded with a reiteration of the future strategy, which includes reducing exposure to central London offices and weaker core areas, with proceeds being redeployed in regional office and industrial property. There will be a focus on more defensive and income generating assets as well as consideration of new niche strategies as and when opportunities present themselves.

Overall this was an informative meeting with no real concerns about how the portfolio is shaping up. What does seem certain is that the property cycle is entering a more complex and potentially more volatile period than in the recent past and that active management will be key to delivering superior returns.

Mark Stevens

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