Item 7

CT/13/18
Investment & Pension Fund Committee
1 March 2013

INVESTMENT MANAGEMENT & NEW MONEY REPORT

Report of the County Treasurer

All recommendations contained in this report are subject to confirmation by the Committee before taking effect.

Recommendations:

(i) that the Investment Management Report be noted;

(ii) that the Committee adopts the Treasury Management and Investment Strategy for 2013/14 as set out in Appendix 1.

(iii) that no new money be allocated in the current quarter.

1) FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at **31 December 2012**.

Fund Value and Asset Allocation

	Fund Value as at 30.12.12	Target allocation	Fund asset allocation at 30.12.12	Variation from Target
	£m	**%**	**%**	**%**
Fixed Interest				
Bonds	379.3	15.0	13.7	
Cash	84.5	3.0	3.1	
	463.8	**18.0**	**16.8**	**-1.2**
Equities				
Passive Equities	1,010.1	35.0	36.5	
Active Equities	613.1	20.0	22.2	
	1,623.3	**55.0**	**58.7**	**+3.7**
Diversified Growth Funds	**424.5**	**15.0**	**15.4**	**+0.4**
Alternatives				
Property	218.0	10.0	7.9	
Infrastructure	32.8	2.0	1.2	
	250.8	**12.0**	**9.1**	**-2.9**

Total Fund	**2,762.4**	**100.0**	**100.0**

Item 7

- The Fund has grown from £2,692.4m to £2,762.4m over the last quarter.

- The table reflects the asset allocation targets as agreed by the Committee. The target ranges have a tolerance level of plus/minus 2.5% for market movement.

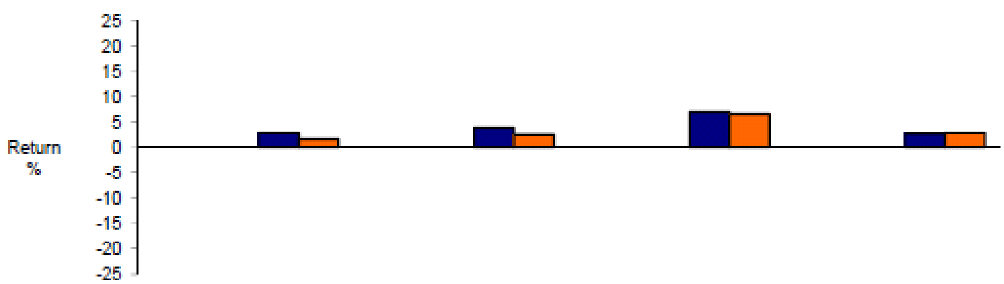
- At the quarter end the actual asset allocation to Alternatives was below the 2.5% plus or minus tolerance level. However, in line with the agreement with Aviva, an additional £20 million was allocated to property at the beginning of January, with a commitment to invest a further £20 million at the beginning of April. This should bring the allocation up to within the target range.

- Following another good quarter, the allocation to equities is above the 2.5% tolerance level. No specific action is proposed.

2) FUND PERFORMANCE

The total return of the Pension Fund relative to its Benchmark over the latest quarter, the current financial year and on a rolling three and five year basis are shown in the following chart. The Fund's performance is best considered over longer periods of 3 years or more, and it can be seen that the total return has close tracked its benchmark. The Devon Pension Fund Fund changed its benchmark in July 2012 from the average return of Local Authority Funds to a scheme-specific benchmark based on the Fund's target asset allocation. This is in keeping with the majority of other Local Authority Funds.

<u>Longer Term Fund Performance Summary</u>



	Latest Quarter	From 30/3/12	3 Years % pa	5 Years % pa
Fund	2.8	3.9	7.0	2.7
Benchmark	1.6	2.5	6.6	2.8
Relative Return	1.1	1.4	0.4	-0.2

A breakdown of the performance of the Total Fund for the **<u>nine months to 31 December 2012</u>** and the comparative Index returns are shown in the table below:

Performance for the nine months to 31 December 2012

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	**2.0**	1.7	BarCap Global Bonds
Cash (inc Foreign Currency)	**2.1**	0.3	GBP 7 Day LIBID
Passive Equities	**5.2**	5.1	Devon Bespoke Passive Index
Active Equities	**5.8**	2.6	FTSE World
Diversified Growth Funds	**5.7**	2.2	Devon Multi Asset Benchmark
Infrastructure	**16.4**	0.3	GBP 7 Day LIBID
Property	**-0.7**	0.2	IPD UK PPF All Balanced Funds
Total Fund	**3.9**	**2.5**	**Devon Bespoke Index**

The total Fund return for the year to date is 1.4% ahead of the Fund's customised benchmark. The customised benchmark was revised for the current year to reflect the Fund's current asset allocation targets, to provide a better indication of how the Fund is performing against its current strategy. The rolling three year return is 0.4% ahead of benchmark, while the rolling 5 year figure is slightly below benchmark.

The current year performance figures for the Total Fund will take into account the impact of the transition process, involving the liquidation of the Fund's previous multi-asset mandate and its re-investment into the DGFs. Taking this into account the current performance against benchmark can be considered a good result.

3) TREASURY MANAGEMENT STRATEGY

(a) In February 2012 the Devon Pension Fund, in accordance with the revised CIPFA Code of Practice for Treasury Management in the Public Services, adopted a revised Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). No changes are proposed to these policies for 2013/14.

(b) The policy requires the Investment and Pension Fund to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year. The Treasury Management and Investment Strategy is shown in draft at Appendix 1. It sets out the current treasury position, cash investments; prospects for interest rates; and the investment strategy, and is consistent with the strategy agreed by Devon County Council.

(c) The Committee is asked to approve the adoption of the policies and strategies shown in Appendix 1.

4) NEW MONEY

(a) The table below shows the balance between contributions received and due and the pension benefits paid out for the **nine months to 31 December 2012**, together with retained investment income and administrative and investment management costs.

Item 7

Net Surplus Cash

	Income & Exp. to 30.12.12
	£m
Contributions Received/Due	106.9
Benefits Paid	(110.1)
Transfers In/Out	1.9
Administration Expenses	(1.0)
Net New Money	**(2.3)**
Retained Investment Income	7.3
Investment Mgt Expenses	(2.7)
Net Surplus Cash	**2.3**

(b) Benefits paid during the year to date have been higher than the contributions received, although the addition of retained investment income from the property mandate, infrastructure and the in-house managed cash have resulted in a small net cash surplus.

(c) The Treasury Management Strategy shows that as at 12 February the total unallocated cash on deposit was £61.6m. With no new money currently being generated the final agreed allocation of £20m to Aviva will reduce the unallocated cash to around £35 - 40m.

(d) Taking into account the views reflected by the Fund's external managers and the Committee's Adviser at recent meetings and the need to retain cash to fund the increased allocation to Property, I recommend that the remaining unallocated cash (£61.6m) be retained. While cash levels will be minimised where possible, the forecast balance of £35 – 40m appears prudent.

Mary Davis

Local Government Act 1972
List of Background Papers Nil
Contact for Enquiries: Richard Bettley/Mark Gayler
Tel No: (01392) 383621 Room G97/G99