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CT/13/61

Investment & Pension Fund Committee
22 November 2013

INVESTMENT MANAGEMENT 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 note compliance with the 2013/14 Treasury Management Strategy

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 **30 September 2013**.

Fund Value and Asset Allocation

	Fund Value as at 30.09.13	Target allocation	Fund asset allocation at 30.09.13	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	370.8	14.0	12.3	
Cash	64.9	2.0	2.2	
	435.7	16.0	14.5	-1.5
Equities				
Passive Equities	1,178.8	35.0	39.1	
Active Equities	622.8	20.0	20.7	
	1,801.6	55.0	59.8	+4.8
Diversified Growth Funds	443.2	15.0	14.7	-0.3
Alternatives				
Property	301.9	10.0	10.0	
Infrastructure	29.2	4.0	1.0	
	331.1	14.0	11.0	-3.0
Total Fund	3,011.6	100.0	100.0	

- The Fund value is just over £3 billion.

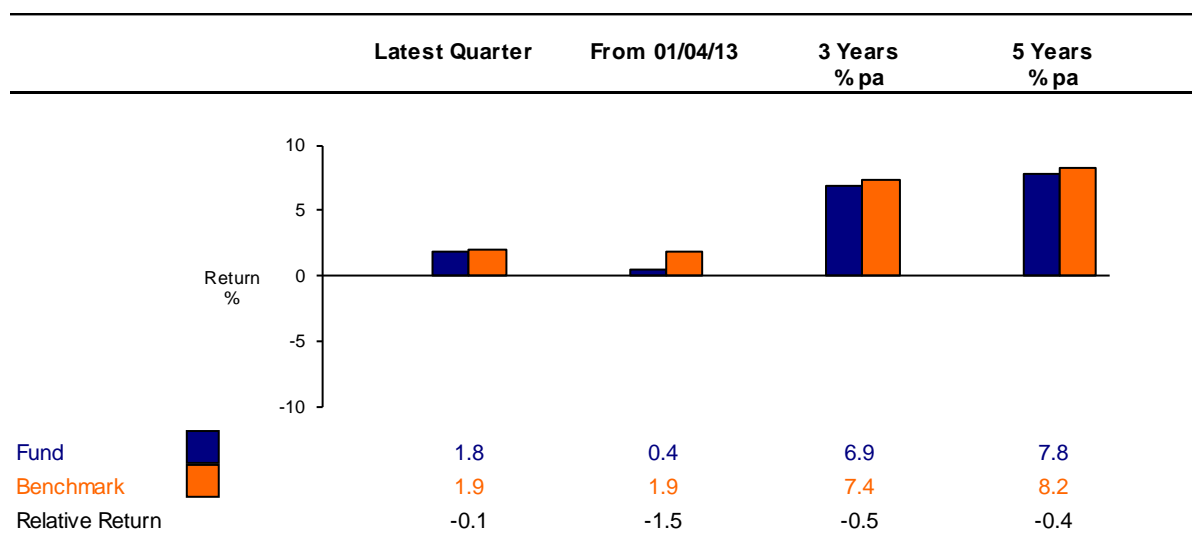
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- The Fund's equity holdings remain significantly above their target allocation of 55% at 30 September. No action is currently proposed, pending the drawdown of the commitment made at the last meeting of the Committee to invest a further £85 million into infrastructure. There will be insufficient cash available to fund the new infrastructure commitments in their entirety, so when the commitments are drawn they are likely to be funded by the sale of equities in order to bring the allocation of equities back in line with target.
- The agreed infrastructure commitments will bring the allocation to that asset class in line with the target allocation over the next 12-18 months.

2) FUND PERFORMANCE

The performance of the Total Fund over the last quarter, the current financial year and on a rolling three and five year basis are shown in the following chart.

Longer Term Fund Performance Summary



The Fund return for the half year was 1.5% below the Fund's customised benchmark. This was a disappointing result for the Fund, and has also impacted on the rolling three and five year returns, which are 0.5% and 0.4% respectively below benchmark.

Key issues over the six months include:

- The negative impact on Bond markets of expectations that the US Federal Reserve would begin to taper its Quantitative Easing programme.
- Active Equities below benchmark largely due to exposure to emerging markets, which have lagged behind developed markets over the period. This was also impacted by the Fed's plan to taper QE.
- Passive Equities return boosted by active currency hedging strategy.
- Negative return on Diversified Growth Funds against an absolute benchmark.
- Negative currency effect of Sterling strength against the US Dollar on foreign currency holdings and Infrastructure.

A breakdown of the performance of the Total Fund for the **six months to 30 September 2013** and the comparative Index returns are shown in the table below:

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Performance for the six months to 30 September 2013

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	-5.1	-6.3	BarCap Global Bonds
Cash (inc Foreign Currency)	-9.5	0.2	GBP 7 Day LIBID
Passive Equities	5.3	5.1	Devon Bespoke Passive Index
Active Equities	-3.3	1.7	FTSE World
Diversified Growth Funds	-0.8	2.1	Devon Multi Asset Benchmark
Infrastructure	-11.7	0.2	GBP 7 Day LIBID
Property	4.3	3.9	IPD UK PPF All Balanced Funds
Total Fund	0.4	1.9	Devon Bespoke Index

3) CASH MANAGEMENT

- (a) At 4 November 2013 the unallocated cash on deposit amounted to **£35.4m**. From this members will note that £29.7m was held in Call Accounts and £5.7m in term deposits. The policy is to achieve attractive rates so far as is possible, whilst ensuring security and liquidity. The cash held is being maintained at a lower level than in the past, which has an impact on the rates achievable.

Cash on Deposit

Type of Deposit	Maturity period	Amount	Cumulative	Percent of Total
		£m	£m	%
Call and Notice Accounts	Immediate	29.7	29.7	83.8
	30 Days	0.0		0.0
Term	Quarter to:			
	31-Dec-2013	0.0		0.0
	31-Mar-2014	0.0		0.0
	30-Jun-2014	5.7	5.7	16.2
TOTAL (at 4 November 2013)			35.4	100.0

- (b) Over the last 12 months the rates available for cash from the Council's approved counterparties have reduced further. The weighted average rate being earned on cash deposits, as at 4 November 2013, is **0.68%**.
- (c) The deposits in place fully comply with the Fund's Treasury Management and Investment Strategy for 2013/14. A schedule of investments will be available at the meeting if members require details of the current portfolio.

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Mary Davis

Local Government Act 1972

List of Background Papers Nil

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