

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 **31 December 2013**.

Fund Value and Asset Allocation

	Fund Value as at 31.12.13	Target allocation	Fund asset allocation at 31.12.13	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	357.5	14.0	11.5	
Cash	72.2	2.0	2.3	
	429.7	16.0	13.8	-2.2
Equities				
Passive Equities	1,253.4	35.0	40.3	
Active Equities	634.3	20.0	20.4	
	1,887.7	55.0	60.7	+5.7
Diversified Growth Funds	453.5	15.0	14.6	-0.4
Alternatives				
Property	309.5	10.0	9.9	
Infrastructure	29.6	4.0	1.0	
	339.1	14.0	10.9	-3.1
Total Fund	3,110.0	100.0	100.0	

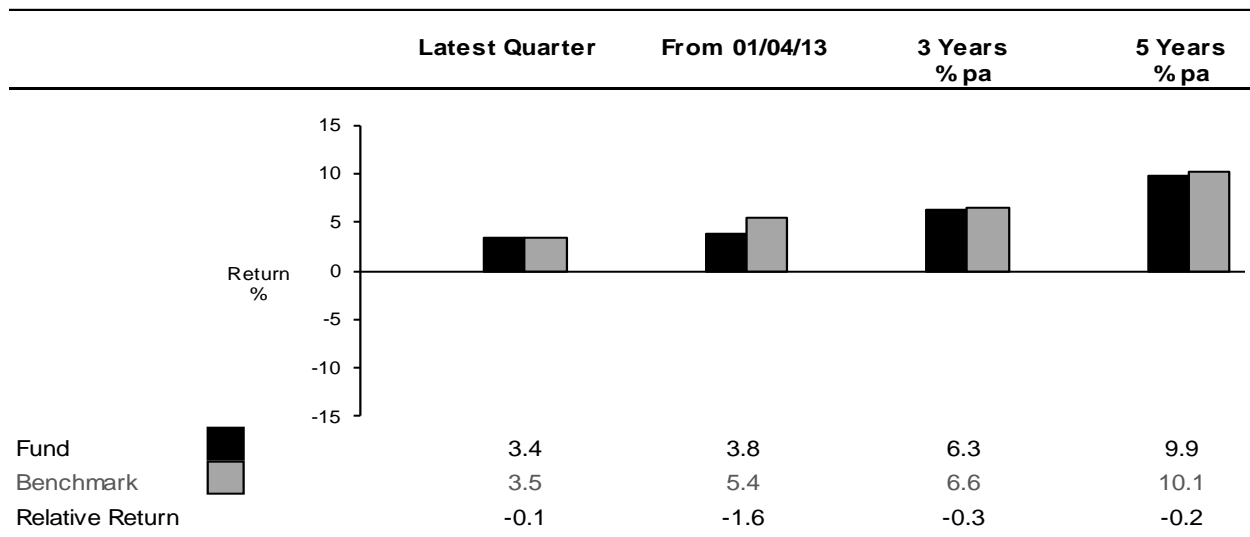
- The Fund value increased by around £100 million over the quarter to £3.11 billion.

- The Fund's equity holdings remain significantly above their target allocation of 55% at 31 December. This is a result of the higher returns on equity markets over the last 12 months, in comparison with other asset classes, most notably fixed interest which is now below the target allocation. No action is currently proposed, pending the transfer of assets to the Greater Manchester Pension Fund in relation to the Probation Service and the drawdown of the commitment to invest a further £85 million into infrastructure. There will be insufficient cash available to fund these transactions, so they will need to be funded by the sale of equities, which will then bring the allocation to 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 nine months was 1.6% 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 0.3% and 0.2% respectively below benchmark.

Key issues over the nine months include:

- The negative impact on Bond markets of the US Federal Reserve's announcements in relation to the tapering of its Quantitative Easing programme.
- Negative return on Active Equities, largely due to exposure to emerging markets, which have lagged behind developed markets over the period. Emerging market equities were also particularly impacted by the Fed's announcements of tapering of QE.
- Passive Equities return boosted by active currency hedging strategy in relation to the overseas element of the investment.
- 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 **nine months to 31 December 2013** and the comparative Index returns are shown in the table below:

Performance for the nine months to 31 December 2013

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	-6.8	-8.8	BarCap Global Bonds
Cash (inc Foreign Currency)	-10.8	0.3	GBP 7 Day LIBID
Passive Equities	11.9	11.7	Devon Bespoke Passive Index
Active Equities	-1.4	6.9	FTSE World
Diversified Growth Funds	1.6	3.2	Devon Multi Asset Benchmark
Infrastructure	-8.1	0.3	GBP 7 Day LIBID
Property	8.4	8.3	IPD UK PPF All Balanced Funds
Total Fund	3.8	5.4	Devon Bespoke Index

3) CASHFLOW AND CASH MANAGEMENT

- (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 2013, together with retained investment income and administrative and investment management costs. This shows that the benefits paid during the year to date have been higher than the contributions received, although this is balanced out by the addition of retained investment income from the property mandate, infrastructure and the in-house managed cash.

Cashflow during the nine months to 31 December 2013

	Income & Exp. to 31.12.13
	£m
Contributions Received/Due	108.0
Benefits Paid	(112.8)
Transfers In/Out	0.6
Administration Expenses	(1.3)
Net cashflow from Contributions / Benefits	(5.5)
Retained Investment Income	9.3
Investment Mgt Expenses	(3.2)
Net Cashflow	0.6

- (b) At 10 February 2014 the unallocated cash on deposit amounted to **£45.4m**. From this members will note that £39.7m 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	39.7	39.7	87.4
	30 Days	0.0		0.0
Term	Quarter to:			
	31-Mar-2014	0.0		0.0
	30-Jun-2014	5.7	5.7	12.6
TOTAL (at 10 February 2014)			45.4	100.0

- (c) 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 10 February 2014, is **0.65%**.
- (d) 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.

Mary Davis

Local Government Act 1972

List of Background Papers Nil

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