

## 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 March 2014**.

#### Fund Value and Asset Allocation

	Fund Value as at 31.03.14	Target allocation	Fund asset allocation at 31.03.14	Variation from Target
	£m	%	%	%
<b>Fixed Interest</b>				
Bonds	379.4	14.0	12.1	
Cash	49.8	2.0	1.6	
	<b>429.2</b>	<b>16.0</b>	<b>13.7</b>	<b>-2.3</b>
<b>Equities</b>				
Passive Equities	1,235.6	35.0	39.4	
Active Equities	640.4	20.0	20.4	
	<b>1,876.0</b>	<b>55.0</b>	<b>59.8</b>	<b>+4.8</b>
<b>Diversified Growth Funds</b>	<b>454.6</b>	<b>15.0</b>	<b>14.5</b>	<b>-0.5</b>
<b>Alternatives</b>				
Property	317.4	10.0	10.1	
Infrastructure	58.6	4.0	1.9	
	<b>376.0</b>	<b>14.0</b>	<b>12.0</b>	<b>-2.0</b>
<b>Total Fund</b>	<b>3,135.8</b>	<b>100.0</b>	<b>100.0</b>	

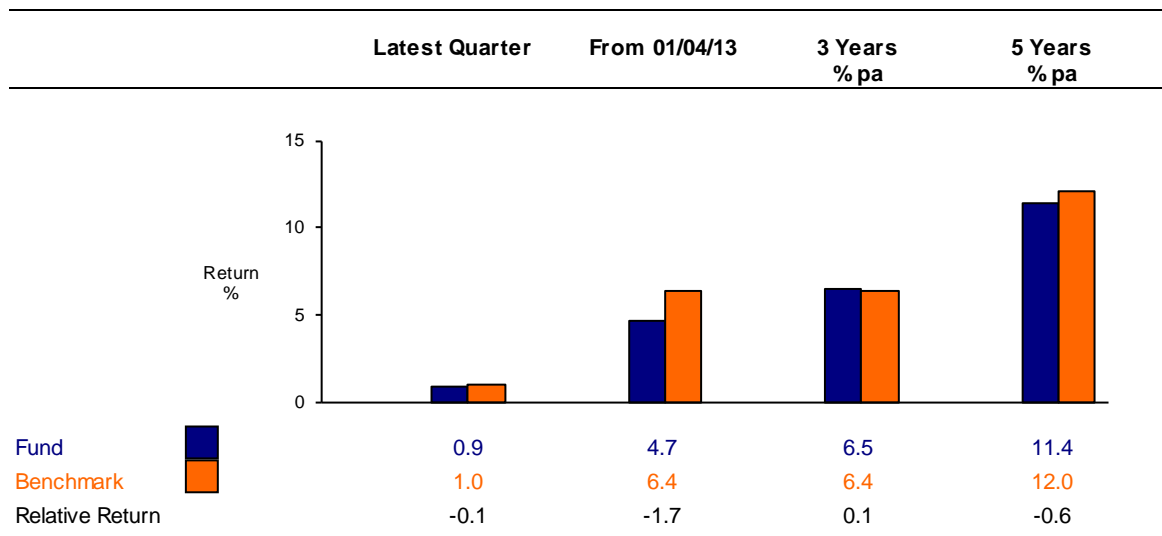
- The Fund value as at 31<sup>st</sup> March 2014 stood at £3,135.8 million, compared with £3,006.7m as at the end of March 2013.

- 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 12-18 months, in comparison with other asset classes, most notably fixed interest which is now below the target allocation. £25m was withdrawn from passive equities over the quarter to fund a drawdown request from the European Diversified Infrastructure Fund. 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 2013/14 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 year was 4.7%, which was 1.7% below the Fund's customised benchmark. This was a disappointing result for the Fund, and has also impacted on the rolling five year return which is now 0.6% below benchmark. However, the rolling 3 year return is showing a positive return of 0.1% above benchmark.

Key issues over the year 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 **year to 31 March 2014** and the comparative Index returns are shown in the table below:

### **Performance for the year to 31 March 2014**

<b>Sector</b>	<b>Fund Return</b>	<b>Benchmark</b>	<b>Benchmark Description</b>
	<b>%</b>	<b>%</b>	
Global Fixed Interest	<b>-5.4</b>	-7.2	BarCap Global Bonds
Cash (inc Foreign Currency)	<b>-9.7</b>	0.4	GBP 7 Day LIBID
Passive Equities	<b>12.2</b>	12.0	Devon Bespoke Passive Index
Active Equities	<b>-0.3</b>	7.6	FTSE World
Diversified Growth Funds	<b>1.8</b>	4.3	Devon Multi Asset Benchmark
Infrastructure	<b>-10.0</b>	0.4	GBP 7 Day LIBID
Property	<b>12.0</b>	11.9	IPD UK PPF All Balanced Funds
<b>Total Fund</b>	<b>4.7</b>	<b>6.4</b>	<b>Devon Bespoke Index</b>

### **3) TREASURY MANAGEMENT STEWARDSHIP 2013/14**

- At the March 2013 Committee, members approved a Treasury Management and Investment Strategy for 2013/14. This section of the report provides a review of the unallocated cash managed by the Investment Manager and his team during 2013/14.
- Interest rates continue to be very low and the Bank of England base rate remained at 0.5% throughout the financial year.
- The Pension Fund maintains a very prudent approach to cash investments. Cash is now being maintained at a very low level, and therefore ensuring liquidity of the Fund's cash is a key requirement. Putting safety and liquidity before yield does however impact on the income being generated from these investments but is a necessary position to maintain.
- At 31 March 2014 the unallocated cash on deposit amounted to **£35.0m**. From this members will note that £29.2m was held in Call Accounts and £5.8m in term deposits.

#### **Cash on Deposit**

<b>Type of Deposit</b>	<b>Maturity period</b>	<b>Amount</b>	<b>Cumulative</b>	<b>Percent of Total</b>
		<b>£m</b>	<b>£m</b>	<b>%</b>
<b>Call and Notice Accounts</b>	<b>Immediate</b>	29.2	29.2	83.6
	<b>30 Days</b>	0.0		0.0
	30-Jun-2014	5.8		16.4
	30-Sep-2014	0.0	5.8	0.0
<b>TOTAL (at 31st March 2014)</b>			<b>35.0</b>	<b>100.0</b>

- (e) 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 31 March 2014, was **0.68%**.
- (f) The deposits in place have fully complied with the Fund's Treasury Management and Investment Strategy for 2013/14.

Mary Davis

Local Government Act 1972

List of Background Papers Nil

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