

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 2014/15 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 June 2014**.

Fund Value and Asset Allocation

	Fund Value as at 30.06.14	Target allocation	Fund asset allocation at 30.06.14	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	369.5	14.0	11.5	
Cash	65.9	2.0	2.1	
	435.4	16.0	13.6	-2.4
Equities				
Passive Equities	1,269.9	35.0	39.6	
Active Equities	651.8	20.0	20.3	
	1,921.7	55.0	59.9	+4.9
Diversified Growth Funds	464.1	15.0	14.5	-0.5
Alternatives				
Property	327.1	10.0	10.2	
Infrastructure	58.8	4.0	1.8	
	385.9	14.0	12.0	-2.0
Total Fund	3,207.1	100.0	100.0	

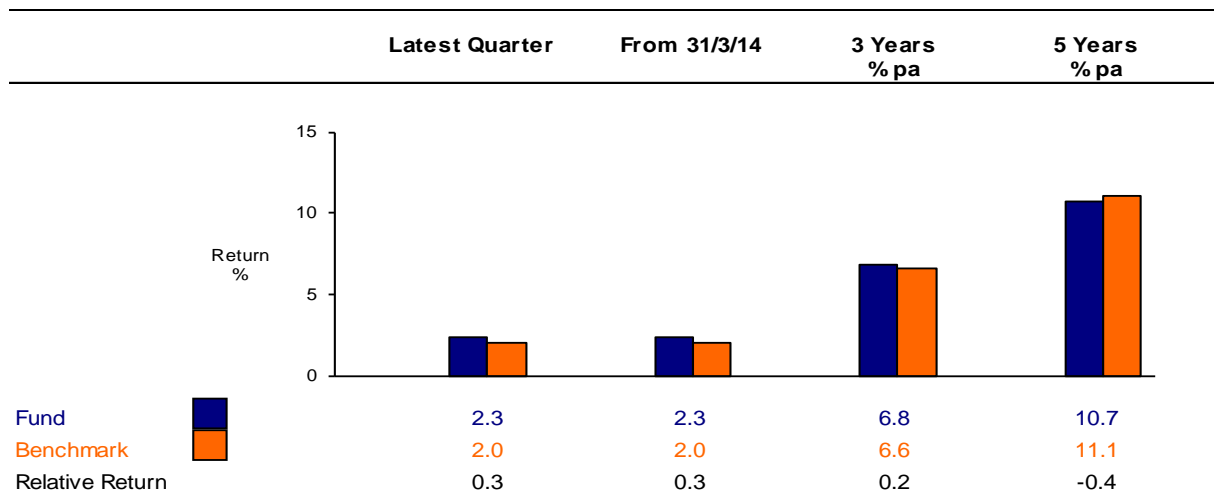
- The Fund value as at 30th June 2014 stood at £3,207.1 million, compared with £3,139.9m as at the 31st March 2014, as per the Statement of Accounts.

- The Fund's equity holdings continue to remain significantly above their target allocation of 55% at 30 June. 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. Following the quarter end, £25million was withdrawn from passive equities to fund a drawdown request from the Hermes Infrastructure Fund, thereby reducing the allocation to equities. Further commitments to fund infrastructure, and the pending requirement to transfer assets to the Greater Manchester Pension Fund in relation to the Probation Service, due to be implemented in December, will bring the allocation to equities back in line with target over the next six months. Therefore no additional action is proposed at this time.
- The agreed infrastructure commitments will bring the allocation to that asset class in line with the target allocation over the next 12 months.

2) FUND PERFORMANCE

The performance of the Total Fund over the last quarter, 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 quarter was +2.3%, which was 0.3% above the Fund's customised benchmark. The return was also ahead of the Local Authority Peer Group average of +1.9%, based on 50 LGPS funds. The rolling 3 year return is also showing a positive return of 0.2% above benchmark, although the rolling 5 year return is below benchmark.

Key issues over the quarter include:

- Passive Equities return continued to be boosted by the active currency hedging strategy in relation to the overseas element of the investment.
- Emerging markets outperformed developed markets over the quarter, which boosted returns. However, the return on Active Equities was slightly below benchmark.
- The diversified growth funds outperformed their cash plus benchmarks.
- Continued Sterling strength against the US Dollar continued to have a negative impact on foreign currency holdings and Infrastructure.

A breakdown of the performance of the Total Fund for the quarter to 30 June 2014 and the comparative Index returns are shown in the table below:

Performance for the year to 30 June 2014

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	0.5	-0.1	BarCap Global Bonds
Cash (inc Foreign Currency)	-1.4	0.1	GBP 7 Day LIBID
Passive Equities	2.8	2.7	Devon Bespoke Passive Index
Active Equities	2.5	2.6	FTSE World
Diversified Growth Funds	2.1	1.1	Devon Multi Asset Benchmark
Infrastructure	0.1	0.1	GBP 7 Day LIBID
Property	4.3	4.3	IPD UK PPF All Balanced Funds
Total Fund	2.3	2.0	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 quarter to 30 June 2014, together with retained investment income and administrative and investment management costs. The total figures for the last financial year are shown for comparison.

Cashflow 2013/14 and during the quarter to 30 June 2014

	Income & Expenditure 2013/14	Income & Exp. to 30.06.14
	£m	£m
Contributions Received/Due	149.0	36.8
Benefits Paid	(150.5)	(38.4)
Transfers In/Out	1.2	(1.9)
Administration Expenses	(2.0)	(0.5)
Net New Money	(2.3)	(4.0)
Retained Investment Income	14.1	4.2
Investment Mgt Expenses	(8.0)	(2.0)
Net Surplus Cash	3.8	(1.8)

- (b) The table shows a continuing picture of the benefits being paid exceeding the current contributions received. For the first quarter of the 2014/15 financial year the deficit has not been balanced out by the addition of retained investment income from the property mandate, infrastructure and the in-house managed cash. However there will be variations in cashflow across the year which may even this out. Should this trend continue it may be necessary to retain investment income from managers who are currently allowed to reinvest the income generated by their portfolio. Following last year's actuarial valuation the Fund Actuary will produce a revised long term cashflow forecast, and a report will be brought to the next meeting of the Committee.
- (c) At 31 August 2014 the unallocated cash on deposit amounted to **£29.6m**. Members will note from the table below that all the cash is now held in Call Accounts. The cash held is

being maintained at a lower level than in the past, and it is therefore necessary to ensure its liquidity for cashflow purposes. This has an impact on the rates achievable.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/14	Interest Rate	Current as at 31/08/14	Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	29.2	0.65	29.6	0.65
Term Deposits	<30 Days	5.8	0.85	0.0	
	>30 Days	0.0		0.0	
TOTAL (at 31st August 2014)		35.0	0.68	29.6	0.65

- (d) The weighted average rate being earned on cash deposits, as at 31 August 2014, is **0.65%**. The deposits in place fully comply with the Fund's Treasury Management and Investment Strategy for 2014/15.

Mary Davis

Local Government Act 1972

List of Background Papers Nil
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