

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 September 2014**.

Fund Value and Asset Allocation

	Fund Value as at 30.09.14	Target allocation	Fund asset allocation at 30.09.14	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	367.5	14.0	11.4	
Cash	66.7	2.0	2.0	
	434.2	16.0	13.4	-2.6
Equities				
Passive Equities	1,247.6	35.0	38.6	
Active Equities	652.5	20.0	20.2	
	1,900.1	55.0	58.8	+3.8
Diversified Growth Funds	469.8	15.0	14.5	-0.5
Alternatives				
Property	337.0	10.0	10.4	
Infrastructure	92.3	4.0	2.9	
	429.3	14.0	13.3	-0.7
Total Fund	3,233.4	100.0	100.0	

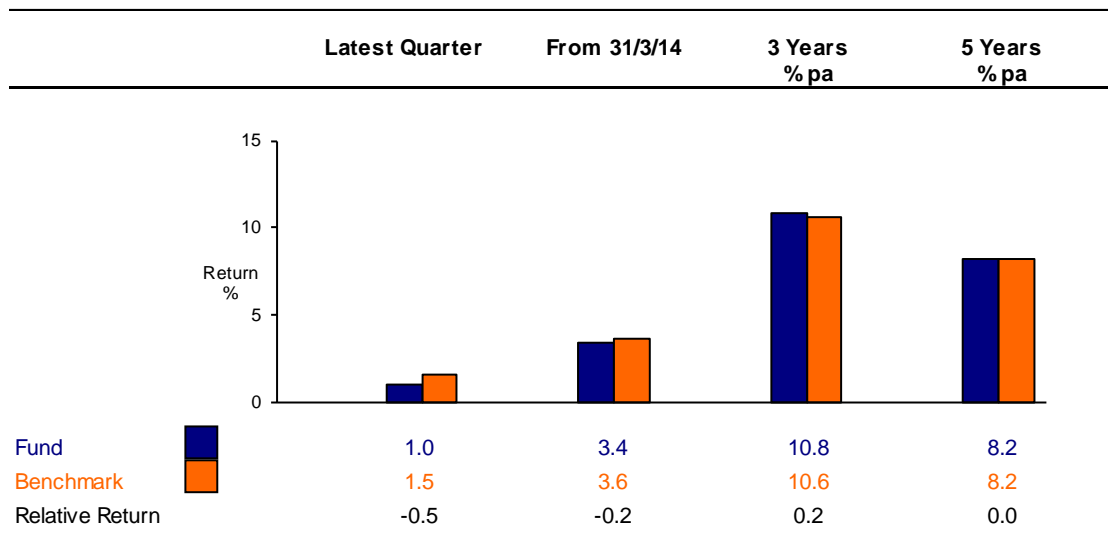
- The Fund value as at 30th September 2014 stood at £3,233.4 million, an increase of £26m over the last quarter.

- The Fund's equity holdings continue to remain above their target allocation of 55% at 30 September, but by less than at the end of June. During the quarter, £25million was withdrawn from passive equities to fund a drawdown request from the Hermes Infrastructure Fund. 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 Fixed Income allocation is being maintained below the target level for the time being, as agreed by the Committee at the meeting on 16th May.
- 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, the financial year to date, 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 six months was +3.4%, which was 0.2% below the Fund's customised benchmark. Over the longer term the rolling 3 year return is showing a positive return of 0.2% above benchmark, while the rolling 5 year return is in line with the benchmark.

Key issues over the quarter include:

- The impact on the Passive Equities return of the active currency hedging strategy in relation to the overseas element of the investment was less positive as a result of the strengthening of the US Dollar against Sterling over the quarter.
- Emerging markets outperformed developed markets over the six months, which has helped returns. However, the total return on Active Equities was significantly below benchmark.
- The diversified growth funds outperformed their cash plus benchmarks.
- The strongest absolute return was on property, although the return was below the benchmark.

A breakdown of the performance of the Total Fund for the **six months to 30 September 2014** and the comparative Index returns are shown in the table below:

Performance for the year to 30 September 2014

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	2.0	2.1	BarCap Global Bonds
Cash (inc Foreign Currency)	-1.7	0.2	GBP 7 Day LIBID
Passive Equities	2.9	2.8	Devon Bespoke Passive Index
Active Equities	3.3	5.7	FTSE World
Diversified Growth Funds	3.3	2.1	Devon Multi Asset Benchmark
Infrastructure	2.9	0.2	GBP 7 Day LIBID
Property	8.2	8.5	IPD UK PPF All Balanced Funds
Total Fund	3.4	3.6	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 six months to 30 September 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 2014/15 to 30 September 2014

	Income & Expenditure 2013/14	Income & Exp. to 30.09.14
	£m	£m
Contributions Received/Due	149.0	74.3
Benefits Paid	(150.5)	(78.5)
Transfers In/Out	1.2	(1.9)
Administration Expenses	(2.0)	(1.0)
Net New Money	(2.3)	(7.1)
Retained Investment Income	14.1	8.7
Investment Mgt Expenses	(8.0)	(4.0)
Net Surplus Cash	3.8	(2.4)

- (b) The table shows a continuing picture of the benefits being paid exceeding the current contributions received. For the first six months 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, but the difference is manageable in the short term within current cash resources.
- (c) At 5 November 2014 the unallocated cash on deposit amounted to **£29.3m**. 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 05/11/14	Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	29.2	0.65	29.3	0.50
Term Deposits	<30 Days	5.8	0.85	0.0	
	>30 Days	0.0		0.0	
TOTAL		35.0	0.68	29.3	0.50

- (d) The weighted average rate being earned on cash deposits, as at 5 November 2014, is **0.5%**. This has reduced since the end of September as a result of a reduction in the rate payable on the main call account being used. 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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