

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 **31 March 2015**.

Fund Value and Asset Allocation

	Fund Value as at 31.03.15	Target allocation	Fund asset allocation at 31.03.15	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	390.8	14.0	11.6	
Cash	58.9	2.0	1.7	
	449.7	16.0	13.3	-2.7
Equities				
Passive Equities	1,290.6	35.0	38.2	
Interim Transition Fund	187.2	5.0	5.5	
Active Equities	511.7	15.0	15.2	
	1,989.5	55.0	58.9	+3.9
Diversified Growth Funds	496.0	15.0	14.7	-0.3
Alternatives				
Property	346.4	10.0	10.3	
Infrastructure	93.3	4.0	2.8	
	439.7	14.0	13.1	-0.9
Total Fund	3,374.9	100.0	100.0	

- The Fund value as at 31st March 2015 stood at £3,374.9 million, an increase of £153.4m over the quarter. Please note this is a provisional figure which may be revised when the Fund's Statement of Accounts is finalised.

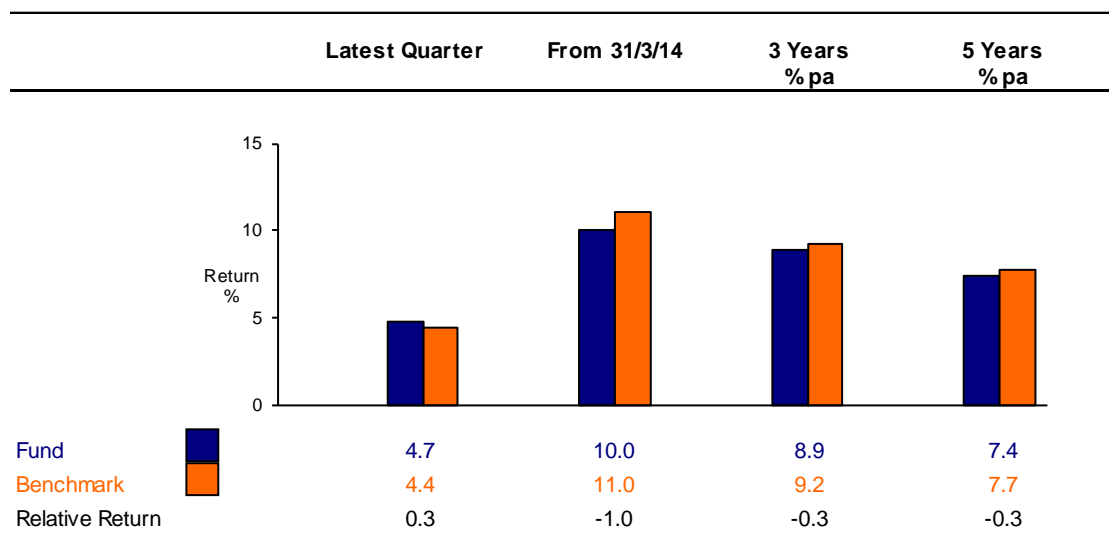
- The Fixed Income allocation is being maintained below the target level for the time being, as agreed by the Committee at the meeting on 16th May 2014.
- The Fund's equity holdings remain above their target allocation of 55%. The allocation to equities will continue to remain over target as a result of the agreement to maintain fixed income at below the target level. However, further commitments to fund infrastructure will reduce the over-allocation to within 2.5% of the target allocation over the next 12 months. 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

WM Performance Services, who provide performance management statistics for the Fund are in the process of changing the basis of their approach to measure performance net of all fees. In the past performance figures have not taken account of invoiced fees, but have been net of underlying fees incurred directly within pooled funds. Due to the difficulties of backdating their approach performance will only be shown net of fees from 1 April 2014. Therefore the performance statistics quoted in this report will be net of fees for the current financial year, but the three year and five year figures shown will combine gross performance up to 31 March 2014 and net of fees performance from 1 April 2014 onwards. The impact on the current year figures will be to reduce the return at an overall fund level by around 0.2%

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 quarter to 31 March saw a positive above benchmark return, which took the annual return closer to the benchmark and up to +10.0%. Over the longer term the rolling 3 year return is now showing a return of 0.3% below benchmark, while the rolling 5 year return is also below benchmark by the same figure. Over the two year period since the date of the actuarial valuation the Fund has achieved a return of 7.3%, which is ahead of the 6.1% assumed long term future investment return assumed by the Actuary at the valuation. Other things being equal, this will have helped to improve the funding level of the Fund.

Key issues over the year include:

- The main reason for underperformance is the return on Active Equities which is significantly below benchmark. The active managers have performed poorly and the specialist funds also suffered as a result of the significant exposure to emerging markets and European small cap which have performed poorly.
- The impact on the Passive Equities return of the active currency hedging strategy in relation to the overseas element of the investment has been less positive as a result of the strengthening of the US Dollar against Sterling.
- Global fixed interest was below benchmark partly due to the negative performance of the multi-sector credit fund. Market conditions have been less favourable to the type of assets the multi-sector credit fund is invested in during the nine months since the investment was made and this investment needs to be judged over a longer term. However it should also be noted that the return attributed to cash was largely as a result of foreign currency plays, forward currency and derivative transactions undertaken by the two bond managers, which has lifted their overall performance.
- The diversified growth funds have 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 **year to 31 March 2015** and the comparative Index returns are shown in the table below:

Performance for the year to 31 March 2015

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	5.6	8.2	BarCap Global Bonds
Cash (inc Foreign Currency)	13.0	0.3	GBP 7 Day LIBID
Passive Equities	10.8	11.0	Devon Bespoke Passive Index
Active Equities	8.8	18.8	FTSE World
Diversified Growth Funds	9.1	4.3	Devon Multi Asset Benchmark
Infrastructure	0.4	0.3	GBP 7 Day LIBID
Property	15.8	16.6	IPD UK PPF All Balanced Funds
Total Fund	10.0	11.0	Devon Bespoke Index

3) CASHFLOW 2014/15

- (a) The table below shows the balance between contributions received and due and the pension benefits paid out for the year to 31 March 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

	Income & Expenditure 2013/14	Income & Exp. to 31.03.15
	£m	£m
Contributions Received/Due	149.0	150.9
Benefits Paid	(150.5)	(158.5)
Transfers In/Out *	1.2	0.3
Administration Expenses	(2.0)	(1.4)
Net New Money	(2.3)	(8.7)
Retained Investment Income	14.1	15.6
Investment Mgt Expenses	(8.0)	(8.4)
Net Surplus Cash	3.8	(1.5)

* The transfers figure excludes the £63.1m transfer to the Greater Manchester Pension Fund

- (b) The table shows a continuing picture of the benefits being paid exceeding the current contributions received. For the 2014/15 financial year the deficit, added to the cost of investment management, 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 insignificant and was manageable during the year within current cash resources.

4) TREASURY MANAGEMENT STEWARDSHIP 2014/15

- (a) At the February 2014 Committee, members approved a Treasury Management and Investment Strategy for 2014/15. This section of the report provides a review of the unallocated cash managed by the Investment Manager and his team during 2014/15.
- (b) Interest rates continue to be very low and the Bank of England base rate remained at 0.5% throughout the financial year. The rates available from the banks for call accounts and short term deposits have reduced during the year, largely as a result of regulatory issues designed to ensure the safety of bank deposits.
- (c) 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.
- (d) At 31 March 2015 the unallocated cash on deposit amounted to **£30.3m**. From this members will note that all cash is now held in call accounts. The small amount of £5.8m invested in term deposits at 31 March 2014 matured in July, since when all the unallocated cash has been held in call accounts.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/14	Interest Rate	Current as at 31/03/15	Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	29.2	0.65	30.3	0.50
Term Deposits	<30 Days	5.8	0.85	0.0	
	>30 Days	0.0		0.0	
TOTAL (at 31st March 2015)		35.0	0.68	30.3	0.50

- (e) The weighted average rate being earned on cash deposits, as at 31 March 2015, was **0.50%**. This reflects the current low interest rate environment and the need to ensure liquidity as a result of the low level of cash being maintained.
- (f) The deposits in place fully complied 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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