

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 2015/16 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 2015**.

Fund Value and Asset Allocation

	Fund Value as at 30.06.15	Target allocation	Fund asset allocation at 30.06.15	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	367.1	14.0	11.2	
Cash	76.4	2.0	2.3	
	443.5	16.0	13.5	-2.5
Equities				
Passive Equities	1,414.4	40.0	43.0	
Active Equities	495.4	15.0	15.0	
	1,909.8	55.0	58.0	+3.0
Diversified Growth Funds	498.2	15.0	15.1	+0.1
Alternatives				
Property	352.5	10.0	10.7	
Infrastructure	89.6	4.0	2.7	
	442.1	14.0	13.4	-0.6
Total Fund	3,293.6	100.0	100.0	

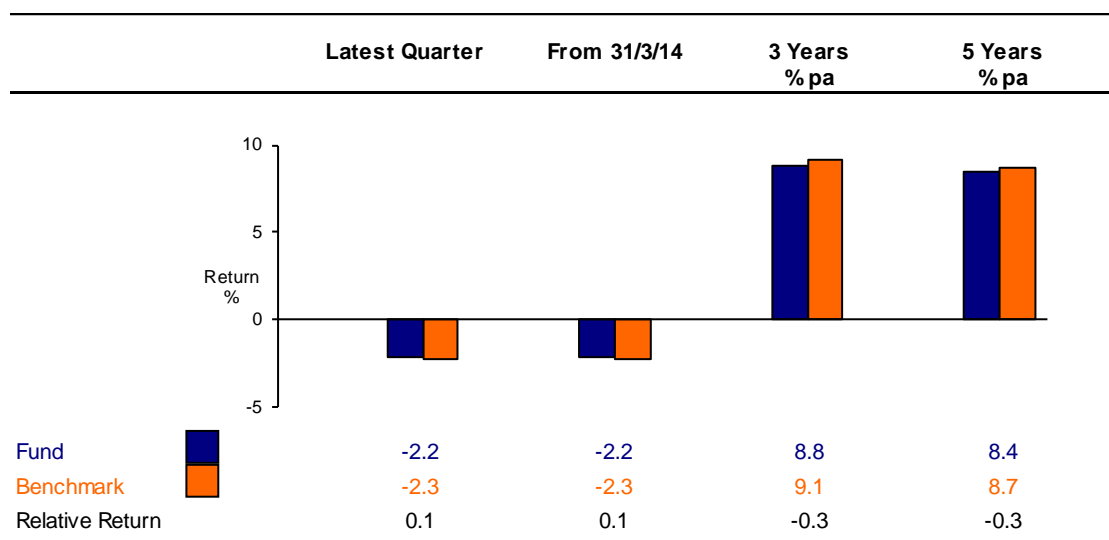
- The Fund value as at 30th June 2015 stood at £3,293.6 million, a decrease of £80m over the quarter. Equity and bond markets were both negative as a result of the debt crisis in Greece, and the impact of market falls in China.

- 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

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 performance statistics quoted are net of fees for the current financial year, but the three year and five year figures shown combine gross performance up to 31 March 2014 and net of fees performance from 1 April 2014 onwards.

The quarter to 30 June saw a negative absolute return of -2.2%. This was, however, above the Fund benchmark, and also above the average LGPS Fund return for the quarter of -2.6% (interim summary based on 45 funds). Over the longer term the rolling 3 year return is showing a return of 0.3% below benchmark, while the rolling 5 year return is also below benchmark by the same figure.

A breakdown of the performance of the Total Fund for the quarter to 30 June 2015 and the comparative Index returns are shown in the table below:

Performance for the year to 30 June 2015

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	-5.6	-6.7	BarCap Global Bonds
Cash (inc Foreign Currency)	0.0	0.1	GBP 7 Day LIBID
Passive Equities	-2.8	-2.7	Devon Bespoke Passive Index
Active Equities	-4.3	-5.2	FTSE World
Diversified Growth Funds	-0.3	1.1	Devon Multi Asset Benchmark
Infrastructure	-0.8	0.1	GBP 7 Day LIBID
Property	3.7	3.3	IPD UK PPF All Balanced Funds
Total Fund	-2.2	-2.3	Devon Bespoke Index

Key issues over the quarter include:

- The negative absolute return reflects wider market conditions. After a relatively positive April and May, markets lost considerable value during June as a result of the Greek debt crisis, which reached a crescendo towards the end of the month as the Greek Government were unable to make scheduled debt repayments. Concerns about the health of the Chinese economy also contributed, and have led to further significant market falls during August. Negative returns on the Fund's assets will have an impact on our funding level.
- Active equities delivered an above benchmark return during the quarter (-4.3% against the FTSE World market return of -5.2%). This was entirely due to the specialist funds which with one exception all achieved above benchmark returns. The remainder of the Fund's active equity allocation continued to underperform.
- The impact on the Passive Equities return of the active currency hedging strategy in relation to the overseas element of the investment has been positive against the Euro, neutral against the US Dollar and negative against the Japanese Yen.
- Global fixed interest was ahead of benchmark. The allocation to multi-sector credit helped performance by only losing 0.5% over a quarter that saw the Barclays Global Bonds index return -6.7%.
- The diversified growth funds (DGFs) have underperformed their cash plus benchmarks over the quarter. The DGFs will find it more difficult to achieve positive returns in negative markets, the key issue in relation to their performance is that they have preserved capital to a greater extent than either the equity or bond markets.
- The only asset class to deliver a positive return was property, which continues to benefit from growth in UK GDP.

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 2015, together with retained investment income and administrative and investment management costs. The total figures for the whole of the last financial year are shown for comparison.

Cashflow 2014/15 and 2015/16

	Income & Expenditure 2014/15	Income & Exp. to 30.06.15
	£m	£m
Contributions Received/Due	150.9	38.3
Benefits Paid	(158.5)	(40.9)
Transfers In/Out *	0.3	(1.5)
Net New Money	(7.3)	(4.1)
Management Costs	(12.5)	(3.1)
Retained Investment Income	15.6	4.6
Net Surplus Cash	(4.2)	(2.6)

* The transfers figure for 2014/15 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. The net new money deficit for the quarter is over half the deficit for the whole of the 2014/15 financial year, which fits in with previous forecasts.
- (c) At 31 August 2015 the unallocated cash on deposit amounted to **£40.6m**. 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. However term deposits for 3 months and 6 months have been made over the last quarter pending drawdown of cash for the Fund's remaining infrastructure investments.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/15	Interest Rate	Current as at 31/08/15	Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	30.3	0.50	20.6	0.41
Term Deposits	<30 Days	0.0		0.0	0.00
	>30 Days	0.0		20.0	0.61
TOTAL (at 31st August 2015)		30.3	0.50	40.6	0.51

- (d) The weighted average rate being earned on cash deposits, as at 31 August 2015, was **0.51%**. 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. The deposits in place fully comply with the Fund's Treasury Management and Investment Strategy for 2015/16.

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Local Government Act 1972

List of Background Papers Nil

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