CT/15/107
Investment & Pension Fund Committee
20 November 2015

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 September 2015**.

Fund Value and Asset Allocation

	Fund Value as at 30.09.15	Target allocation	Fund asset allocation at 30.09.15	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	380.5	14.0	12.0	
Cash	80.5	2.0	2.5	
	461.0	**16.0**	**14.5**	**-1.5**
Equities				
Passive Equities	1,340.9	40.0	42.1	
Active Equities	450.7	15.0	14.2	
	1,791.6	**55.0**	**56.3**	**+1.3**
Diversified Growth Funds	**472.9**	**15.0**	**14.8**	**-0.2**
Alternatives				
Property	362.3	10.0	11.4	
Infrastructure	97.3	4.0	3.0	
	459.6	**14.0**	**14.4**	**+0.4**
Total Fund	**3,185.1**	**100.0**	**100.0**	

- The Fund value as at 30th September 2015 stood at £3,185.1 million, a decrease of £108m over the quarter, and £188m over the year to date. After an initial fall in markets over the quarter to June, largely as a result of the debt crisis in Greece, the quarter to September saw further significant equity market falls largely as a result of concerns over the slowdown of growth in China, where the market fell dramatically during the Summer.

- As a result of the equity market falls all asset classes are now within 2% of the strategic asset allocation targets.

- 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.

- Within the fixed income allocation, the Committee agreed at its last meeting to transfer £70 million from the global bonds part of the Wellington mandate across to the multi sector credit fund. £50 million was transferred across during October, after the quarter end, with a further £20 million still to be actioned.

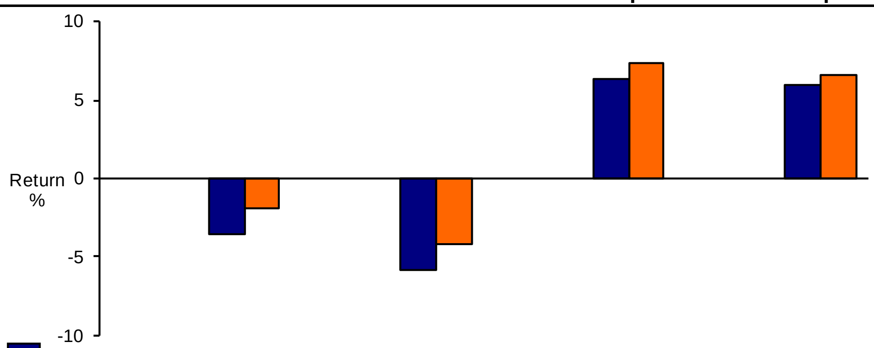
- The Committee also resolved that the County Treasurer be authorised to discuss the adoption of a currency hedged benchmark with Lazard and Wellington for their global bonds mandates and to approve any changes in consultation with the Chairman. Following discussions and consultation with the Chairman a 50% hedge has been agreed with the two bond managers.

- Infrastructure commitments of around £55 million remained outstanding at the quarter end. It is anticipated that around £25 million of this commitment may be drawn by the end of the year.

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



	Latest Quarter	From 31/3/15	3 Years % pa	5 Years % pa
Fund	-3.6	-5.8	6.4	5.9
Benchmark	-1.9	-4.2	7.4	6.6
Relative Return	-1.7	-1.6	-1.0	-0.7

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 six months to 30 September have seen a negative absolute return of -5.8%. This is significantly below the Fund benchmark. This has also had an impact on the longer term figures. The rolling 3 year return is now 1.0% below benchmark, while the rolling 5 year return is below benchmark by 0.7%. However performance over the six months was marginally better than the average LGPS return of -5.9% (interim summary based on 45 funds).

A breakdown of the performance of the Total Fund for the **six months to 30 September 2015** and the comparative Index returns are shown in the table below:

Performance for the six months to 30 September 2015

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	**-2.8**	-2.3	BarCap Global Bonds
Cash (inc Foreign Currency)	**0.1**	0.2	GBP 7 Day LIBID
Passive Equities	**-8.1**	-8.1	Devon Bespoke Passive Index
Active Equities	**-12.8**	-10.3	FTSE World
Diversified Growth Funds	**-4.3**	2.1	Devon Multi Asset Benchmark
Infrastructure	**2.3**	0.2	GBP 7 Day LIBID
Property	**6.4**	6.4	IPD UK PPF All Balanced Funds
Total Fund	**-5.8**	**-4.2**	**Devon Bespoke Index**

Key issues over the six months 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 led to further significant market falls during August. Negative returns on the Fund’s assets will have an impact on our funding level.
- The diversified growth funds (DGFs) have underperformed their cash plus benchmarks over the period, and this contributed over half of the total fund underperformance. 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 should preserve capital to a greater extent than the equity markets. The higher than average allocation to DGFs is one reason why the Fund is well below benchmark but slightly above average compared to other LGPS Funds.
- Active equities delivered a below benchmark return during the quarter (-12.8% against the FTSE World market return of -10.3%). Emerging markets continued to underperform developed markets, which detracted from returns, and the Fund’s global equities mandate continued to underperform, while the specialist funds in combination delivered an above benchmark return.
- 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 US Dollar and marginally negative against the Euro and the Japanese Yen. The allocation to alternative indexation performed better than global market cap benchmarks.
- Global Fixed Interest was also below benchmark over the six months, with the allocation to multi-sector credit not helping the position during a period where risk assets delivered negative returns.
- Property and infrastructure delivered a positive return over the period. Property 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 six months to 30 September 2015, together with retained investment income and administrative and investment management costs. The total figures for the last financial year are shown for comparison. The 2014/15 figures are for the whole of the financial year, so will not be directly comparable to the half year figures to September 2015, but the comparison illustrates the trend in terms of net new money and net surplus cash.

Cashflow 2014/15 and 2015/16

	Income & Expenditure 2014/15	Income & Exp. to 30.09.15
	£m	£m
Contributions Received/Due	150.9	74.8
Benefits Paid	(158.5)	(83.7)
Transfers In/Out *	0.3	(3.6)
Net New Money	**(7.3)**	**(12.5)**
Retained Investment Income	15.6	8.8
Investment Mgt Expenses	(8.4)	(3.9)
Administrative Expenses	(1.4)	(0.7)
Net Surplus Cash	**(1.5)**	**(8.3)**

* 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 gap is growing, but is still manageable within the current strategy.

(c) At 31 October 2015 the unallocated cash on deposit amounted to **£36.4m**. 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 had been made over the previous 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	Average Interest Rate	Current as at 31/10/15	Average Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	30.3	0.50	21.4	0.41
Term Deposits	<30 Days	0.0		0.0	
	>30 Days	0.0		15.0	0.66
TOTAL (at 31st October 2015)		**30.3**	**0.50**	**36.4**	**0.51**

(d) The weighted average rate being earned on cash deposits, as at 31 October 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.

Mary Davis

<u>Local Government Act 1972</u>
List of Background Papers Nil
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