

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 2016/17 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 2016**.

Fund Value and Asset Allocation

	Fund Value as at 30.6.16	Target allocation	Fund asset allocation at 30.6.16	Variation from Target
	£m	%	%	%
Fixed Interest				
Bonds	420.5	14.0	12.0	
Cash	54.7	2.0	1.6	
	475.2	16.0	13.6	-2.4
Equities				
Passive Equities	1,503.1	40.0	43.0	
Active Equities	506.3	15.0	14.5	
	2,009.4	55.0	57.4	+2.4
Diversified Growth Funds	494.1	15.0	14.1	-0.9
Alternatives				
Property	374.5	10.0	10.7	
Infrastructure	144.4	4.0	4.1	
	518.9	14.0	14.8	+0.8
Total Fund	3,497.5	100.0	100.0	

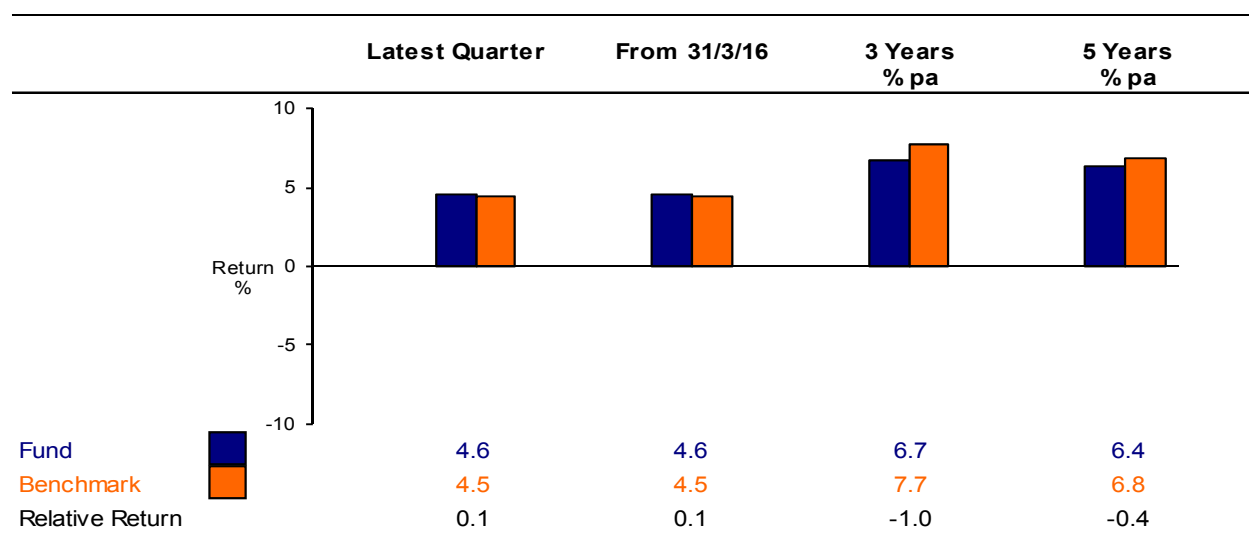
- The Fund value as at 30th June 2016 stood at £3,497.5 million, an increase of £162m over the quarter.

- All asset classes are within 2.5% of the target allocations, with the Fixed Interest allocation being maintained below the target level for the time being, as agreed by the Committee at the meeting on 16th May 2014.
- The rise in equity markets has resulted in Equities being 2.4% over the strategic asset allocation target, but still within the 2.5% threshold.

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 2016 has seen an absolute return of +4.6%. This is marginally above the Fund benchmark of +4.5%.

A breakdown of the performance of the Total Fund for the quarter to 30 June 2016 and the comparative Index returns are shown in the table below:

Performance for the quarter to 30 June 2016

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	5.0	6.1	BarCap Global Bonds
Cash (inc Foreign Currency)	0.1	0.1	GBP 7 Day LIBID
Passive Equities	5.4	5.4	Devon Bespoke Passive Index
Active Equities	8.2	8.7	FTSE World
Diversified Growth Funds	1.9	1.1	Devon Multi Asset Benchmark
Infrastructure	5.3	0.1	GBP 7 Day LIBID
Property	1.1	0.1	IPD UK PPF AI Balanced Funds
Total Fund	4.6	4.5	Devon Bespoke Index

Key issues over the quarter include:

- Despite the uncertainty around the referendum on the UK's membership of the European Union, equity markets were positive over the quarter. Following the outcome of the referendum and the decision to leave the European Union, the major casualty of the result was a significant fall in the value of Sterling. This had a positive effect of increasing the value of the Fund's overseas assets in Sterling terms. Bond values also rose as a flight to quality and fears about growth and inflation compressed yields yet further.
- Returns would have been higher but for the impact of the currency hedging in place on the Fund's overseas passive equities and global bonds mandates. The currency hedges in place reduced the returns during a period when it would have been better to have been unhedged.
- The diversified growth funds (DGFs) outperformed their cash plus benchmarks at a time of positive returns in equity and bond markets, but could have done better.
- Property delivered an above benchmark return, but is likely to be the main casualty of the referendum result which is likely to lead to falls in capital values over the next quarter.

3) BUDGET FORECAST MONITORING AND CASH MANAGEMENT

- (a) Appendix 1 shows the actual to date and revised forecast for 2016/17 against the original budget forecast. This shows a deficit of £8.6m between contributions received and benefits paid out in the first quarter of the year. In addition £1.1m in management expenses has been incurred during the quarter, although this includes no payment of external manager fees as they are paid quarterly in arrears. This is offset by the receipt of £6.2m investment income from property and infrastructure, with a further £5.1m being reinvested by the Fund's investment managers.
- (b) The revised forecast shows no change from the original forecast for the year, with the exception of the Investment Oversight and Accounting heading which includes an additional £50,000 Brunel costs.
- (c) At 30 August 2016 the unallocated cash on deposit amounted to £27.3m. 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. Hence all cash is held in money market funds or call accounts with immediate or short term access.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/16	Average Interest Rate	Current as at 30/08/16	Average Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	21.3	0.41	12.3	0.43
	4 Day Notice			15.0	0.64
Term Deposits	<30 Days	0.0		0.0	
	>30 Days	0.0		0.0	0.00
TOTAL (at 31st January 2016)		21.3	0.41	27.3	0.55

- (d) The weighted average rate being earned on cash deposits, as at 30 August 2016, was **0.55%**. 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 rates available have fallen further following the Bank of England's decision to reduce the base rate to 0.25%. However this has been offset to a certain extent by the use of a money market fund with a 4 day notice period for the withdrawal of cash that offers a better rate.
- (e) The deposits in place during the year fully complied with the Fund's Treasury Management and Investment Strategy for 2016/17.

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Local Government Act 1972

List of Background Papers Nil

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Devon County Council Pension Fund Budget / Forecast 2016/17

	Actual 2015/16 £'000	Original Forecast 2016/17 £'000	Actual to June 16 £'000	Revised Forecast 2016/17 £'000	Variance from Original Forecast £'000
Contributions					
Employers	(117,079)	(117,000)	(25,049)	(117,000)	0
Members	(36,201)	(36,000)	(8,631)	(36,000)	0
Transfers in from other pension funds:	(4,766)	(3,000)	(1,621)	(3,000)	0
	(158,046)	(156,000)	(35,300)	(156,000)	0
Benefits					
Pensions	132,435	135,000	33,692	135,000	0
Commutation and lump sum retirement benefits	30,035	32,000	7,982	32,000	0
Lump sum death benefits	3,777	4,000	1,247	4,000	0
Payments to and on account of leavers	443	200	123	200	0
Payments for members joining state scheme	6,986	6,000	892	6,000	0
	173,676	177,200	43,936	177,200	0
Net Withdrawals from dealings with fund members	15,630	21,200	8,635	21,200	0
Investment Income					
Received as Cash	(19,021)	(19,100)	(6,169)	(19,100)	0
Reinvested by Fund Manager	(16,722)	(14,300)	(5,070)	(14,300)	0
	(35,743)	(33,400)	(11,240)	(33,400)	0
Administrative costs					
Peninsula Pensions	1,523	1,713	720	1,713	0
	1,523	1,713	720	1,713	0
Investment management expenses					
External investment management fees - invoiced	5,242	5,950	0	5,950	0
External investment management fees - not invoiced	2,994	3,000	0	3,000	0
Custody fees	140	115	0	115	0
Transaction costs	3,508	3,510	191	3,510	0
Stock lending income & commission recapture	(94)	(85)	(26)	(85)	0
Other investment management expenses	50	25	0	25	0
	11,840	12,515	165	12,515	0
Oversight and governance costs					
Investment & Pension Fund Committee Support	85	92	30	92	0
Pension Board	21	24	9	24	0
Investment Oversight and Accounting	288	336	53	386	50
Legal Support	43	43	8	43	0
Actuarial Services	41	60	87	60	0
Investment Performance Measurement	24	42	8	42	0
Subscriptions	38	41	10	41	0
Internal Audit fees	13	14	0	14	0
External Audit fees	29	29	0	29	0
	582	681	205	731	50
Total Management Expenses	13,945	14,909	1,090	14,959	50