

From: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 13 November 2020

Subject: Fund Position

Classification: Unrestricted

Summary:

To provide a summary of the Fund's asset allocation and performance.

Recommendation:

The Committee to note the Fund's asset allocation and performance as at 30 September 2020

FOR INFORMATION

1. Introduction

1.1 This report provides an update on the asset allocation and manager performance.

1.2 A copy of the Fund Position Statement is at appendix 1

2. Asset Allocation

2.1 As at 30 September 2020 the Fund's value was £6.829bn, an increase of £287m over the quarter and table 1 below compares the actual asset allocation at 30 September 2020 to that set out in the Fund's Investment Strategy.

Table 1 asset allocation

Asset Class	Value £m	Actual %	Benchmark %	Over / Under weight %
UK Equity	1,212	17.7	23.5	-5.8
Global Equity	3014	44.1	32	12.1
Fixed Income	923	13.5	15	-1.5
Private Equity	151	2.2	4	-1.8
Infrastructure	71	1.0	3.5	-2.5
Property	732	10.7	13	-2.3
Absolute Return	512	7.5	8	-0.5
Cash	215	3.2	1	2.2
Total	6,829	100	100	

- 2.2 The Fund has risen in value by £287m in the quarter, an appreciation of 4.3%. The Growth in the Fund's global equities has outpaced other asset classes and are now overweight their benchmark allocation by 12.1% although due to the negative returns on UK equity the total equities overweight position is now 6.3% compared to 5.5% in the previous quarter.
- 2.3 Further investment of £20m each in the CQS and M&G Alpha Opportunities funds in July and a modest increase in performance in the quarter has improved the Fixed Income asset allocation to 13.5% of the Fund compared to 13.3% in the previous quarter, but still below the benchmark of 15%.
- 2.4 The slide in the valuations of the property portfolio appears to have been contained but property assets have declined as a percentage of the Fund compared to other asset classes. They are now 10.7% of the Fund compared to 11.3% in the previous quarter and below the 13% benchmark allocation.
- 2.5 During the quarter, a sum of £11.98m was received from Link as part of the Woodford fund's capital redemption programme.
- 2.6 Cash held internally and by fund managers remains high at 3.2% of the fund compared to an allocation of 1%

3. Investment performance quarter to 30 September 2020

- 3.1 During the quarter market returns for all asset classes were positive apart from UK equity. Overall, the Fund's investments returned 4.14% in the September quarter compared with a benchmark return of 0.63%. The Fund's outperformance was mainly driven by Baillie Gifford global equity, Schroders UK equity and the fixed income portfolios.
- 3.2 Managers' performance against benchmarks was mixed with most the notable being outperformance by Baillie Gifford (12.1%) and Schroders UK equity (6.7%) and underperformance by Schroders Global Active Value (-7.9%) and Pyrford (-3.2%).
- 3.3 The Fund's fixed income managers' performances continued the recovery from the March quarter and outperformed the benchmark in this quarter as well. CQS delivered the highest returns in this asset class in this quarter although it is still recovering from larger losses made earlier.
- 3.4 Material uncertainty clauses in property valuations have now been removed and transaction volumes and valuations have slowly begun to improve although rent collections are subdued. Market returns for the property asset class were therefore marginally positive, although the Fund's property managers underperformed the benchmark. The underperformance might also reflect the under-recovery of income and gearing in some funds which is not captured in the market indices.
- 3.5 Valuations in Private equity and Infrastructure have recovered from the early conservative estimates used for the March and June quarters. The recent large drawdowns in the new Partners Group Infrastructure fund have had a drag on the September quarter returns for the manager.

3.6 Returns achieved by the Absolute return portfolios remained positive but the Pyrford fund significantly underperformed its benchmark while Ruffer also failed to achieve benchmark returns.

4. Longer term investment returns

4.1 Over the longer term the Fund has performed ahead of benchmark.

4.2 The 1-year performance is 6% vs the benchmark of -1.84% and the Fund's improved returns reflect the continued recovery of the market in the September quarter but crucially the significant outperformance by managers. For the 3-year period the Fund's return was 5.95% pa against the benchmark of 3.9% pa., the main drivers of growth being global equities and notably Baillie Gifford.

4.3 UK Equities have delivered negative returns in the short and long term, particularly in the last year, although Schroders managing the Fund's large UK equity portfolio have mitigated some of the losses.

4.4 The 3-year positive returns of property have been wiped out by the losses in the past year and it remains a challenging time for the asset class as it goes through structural changes which started even before Covid and have now been exacerbated.

Alison Mings, Acting Business Partner – Kent Pension Fund

T: 03000 416488

E: Alison.mings@kent.gov.uk

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