From:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 12 March 2021
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 31 December 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 31 December 2020 the Fund's value was £7.381bn, an increase of £552m over the quarter and table 1 below compares the actual asset allocation at 31 December 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	1,342	18.2	23.5	-5.3
Global Equity*	3,340	45.2	32	13.2
Fixed Income	948	12.8	15	-2.2
Private Equity	181	2.4	4	-1.6
Infrastructure	67	0.9	3.5	-2.6
Property	737	10.0	13	-3.0
Absolute Return	530	7.2	8	-0.8
Cash	237	3.2	1	2.2
Total	7,381	100	100	

2.2 The Fund has risen in value by £552m in the quarter, an appreciation of 8.4%. The quarter saw continued growth in the Fund's global equities as well as a rebound in UK equities on the back of prospects of a Brexit deal and the announcement of a vaccine programme roll out.

2.3 With the help of Mercer, the fund's investment consultants, the Committee appointed Insight to implement an equity downside protection (EDP) programme initially to cover global equities only. Passive equities managed by UBS were sold to release cash for collateral for the EDP and the passive exposure was synthetically created. The EDP was put in place in December in three tranches.

2.4 Through the synthetic equity the Fund continues to have the same exposure to UK and Global equities as in the UBS passive funds, and taking that into account, the current total equity allocation of the Fund is 63%.

2.5 As a result of the more than proportionate growth in equities all other asset classes other than private equity have fallen further below their benchmark allocation. During the quarter there were significant drawdowns paid to the Harbourvest Funds which have helped raise the Fund's allocation to private equity.

2.6 During the quarter, a sum of £6.44m was received from Link as part of the Woodford fund's capital redemption programme. The Fund also received several distributions from older vintages of the Infrastructure and Private Equity funds.

2.7 Cash held internally and by fund managers remains high at 3.2% of the fund compared to a benchmark allocation of 1%

3. Investment performance quarter to 31 December 2020

3.1 The quarter saw strong returns for equities particularly the UK equities which were earlier lagging due to the uncertainty caused by the pandemic / Brexit. The Fund's active managers outperformed their benchmarks, particularly significantly in the global equities space.

3.2 Returns for all asset classes were positive and the Fund's managers outperformed in all cases except in the case of property assets. Overall, the Fund's investments returned 8.42% in the December quarter compared with a benchmark return of 6.13%.

3.3 Besides growth stocks, value as well as cyclical stocks rebounded and helped drive strong growth in all the mandates, particularly the M&G global dividend fund, Schroders GAV and UK equities funds, and Impax. The multi asset credit (MAC) strategies managed by M&G and CQS also performed significantly above their benchmarks helped by the risk-on environment.

3.4 Private equity valuations recovered during the quarter and contributed to the good performance. Early stage investments in the new Partners Group 2018 fund continued the lag in performance.

3.5 Industrial property has continued to perform exceptionally strongly on the back of a huge surge in online sales and home deliveries during the pandemic. In all other sectors further lockdowns have affected valuations as well as rent collections which have detracted returns.

3.6 The DTZ property portfolio is independently valued by Colliers on an annual basis. The property valuations in the above chart do not include a subsequent revaluation uplift of £29m which takes the 1 year returns into positive territory at 1.2%.

3.7 Returns achieved by the Absolute Return portfolios remained positive and above benchmark but Ruffer produced a significant outperformance due to its dynamic asset allocation and management.

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 11.74% vs the benchmark of 2.48% and the Fund's improved returns reflect the continued recovery of the market in the December quarter but crucially the significant outperformance by managers. For the 3-year period the Fund's return was 7.57% pa against the benchmark of 4.69% pa.

4.3 The main drivers of the long-term growth have been global equities notably the Baillie Gifford (BG) fund which returned 58% and 26% in the 1 year and 3-year periods. The BG fund is now close to £2bn in value and makes up a significant portion of the Kent Fund. During the year, it has benefitted from its holdings of technology stocks which have done particularly well in the pandemic.

4.4 UK equity values have generally lagged over the last few years due to Brexit uncertainties and have still not recovered to the valuations of last December. However Schroders' active management of the Fund's large UK equity portfolio has mitigated some of the losses.

4.5 The intermittent lockdowns and forfeiture moratoriums on rent collections during the pandemic has affected property assets. Property valuations are still to recover to last December levels although the 3-year returns are positive. It remains a challenging time for the asset class as it goes through structural changes and continued lockdown in the economy.

4.6 3 year returns of private equity and infrastructure assets remain positive albeit the 1 year returns are mixed due to the timing of the valuations of the underlying assets during the pandemic.

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