By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 21 March 2014
Subject:	**FUND STRUCTURE**
Classification:	Unrestricted.

Summary: To report on a number of issues relating to the structure and management of the Fund.

FOR INFORMATION

INTRODUCTION

1. This report will cover a number of issues relating to the structure and management of the Fund.

TREASURY STRATEGY

2. The Committee last received a report on Treasury Management on 28 June 2013. There are no proposed changes to the counterparties, durations or limits. These are:

   - Scottish Widows Global Liquidity Fund - £20m limit.
   - Insight Sterling Liquidity Fund - £20m limit.
   - Blackrock Institutional Sterling Government Liquidity Fund - £20m limit.
   - Goldman Sachs Sterling Liquid Reserves Fund - £5m limit.
   - NatWest SIBA - £20m limit.
   - HSBC BIBCA - £20m limit.
   - Treasury Bills – unlimited.

3. The NatWest SIBA and the HSBC BIBCA are call accounts. NatWest can only be used for overnight monies. To date we have not bought any Treasury Bills but the facility to do so is available.

4. As at 7 March the following Cash was held totalling £23.1m:

   - NatWest SIBA £18.7m
   - HSBC BIBCA £2m
   - Insight Sterling Liquidity Fund £2.4m

PROBATION TRANSFER

5. Due to the reorganisation of Probation Trusts nationally the Probation staff within the Kent Fund – active members, deferred pensioners and pensioners will transfer to a single LGPS employer from 1 June 2014, the employer will be the Greater Manchester Pension Fund.

6. It is estimated that £59m will need to transfer from the Fund as a result. Where the transfer will be funded from needs to be determined. It is proposed that this decision is delegated to the Corporate Director of Finance and Procurement in consultation with Members.

DTZ INVESTMENT MANAGEMENT

7. The Head of Financial Services attended DTZ's Investment Committee on 24 February. The main issues were:

(1) Provisional figures show a return of 13.1% on the Fund in 2013 against a benchmark of 10.5%. The 2013 performance was driven by capital uplifts mainly on newer properties such as Greenwich Promenade (+55.9%), Vine Hill, London (+33%) and Drury House, London (+18.2%).

(2) The longer term performance position, again on a provisional basis was:

	Fund %	Benchmark %
3 years	9.6	6.5
5 years	11.3	7.8
10 years	8.8	6.3

This shows once again considerable added value from DTZ's choice of assets and their approaches to asset management.

(3) The last quarter of 2013 saw the IPD All Property total return of +4.4%, the highest since March 2010.

(4) There were no disposals or acquisitions to report. DTZ will present their annual strategy to Committee on 27 June.

INDIRECT PROPERTY PORTFOLIO

8. In 2010 the Fund sought to invest £50m in a number of indirect property funds to increase the exposure to property and the position is summarised in Appendix 1. There are 5 funds remaining:

(1) Industrial Property Investment Fund (£7m) – formerly the Falcon fund. Returned +11.4% in 2013 and is trading at NAV+ 5.5%. DTZ recommend holding the fund.

(2) Airport Property Unit Trust (£10.2m) – returned +17.6% in 2013 and +4.3% per annum over 3 years. Most of the properties are in the Heathrow area and with secondary pricing at NAV +2% again DTZ recommend a hold.

(3) Lothbury Property Unit Trust (£8.3m) – a balanced fund favoured by DTZ, returning +10.1% in 2013 and +7.1% per annum over 3 years. Secondary pricing is at NAV +5.5% and again DTZ recommend a hold.

(4) Hercules Unit Trust (£9.4m) – this retail focussed fund managed by Schroders performed disappointingly in 2013 with a return of +3.5% and a 3 year return of +1.3% per annum. DTZ believe that due to some management and technical issues the fund could perform well. Indicative market pricing is NAV-3%.

(5) Quercus Healthcare Property Partnership (£4.7m) – this is a specialist healthcare fund which has performed poorly with a return of -15.9% in 2013 and -10.6% per annum over 3 years. There really is no secondary market, we need to hold and see what the manager, Aviva, can do with the fund.

9. IPIF, AIPUT and Lothbury could all be sold now at a dividend to NAV. Alternatively we can hold and regard as long term property holdings.

10. With Quercus we have no option except to hold.

11. There could be a case for seeking to sell the holding in the Hercules Fund in the secondary market.

INVESCO

12. This transaction was completed on 14 February with £532.5m being realised. The total cost was £4.4m and extracts from StateStreet's Post Transition Summary and Post Transition Analysis are attached in Appendix 2.

13. By way of perspective, Invesco were allocated £200m in March 2007, and returned 6.5% per annum with outperformance of 2.1% per annum over that period.

SARASIN

14. The transition of £150m from State Street International Equity Fund to Sarasin started on 5 March and should be complete by around 20 March. The projected cost is £511,000.

KAMES

14. The legal documentation has now been signed and the first drawdown of the £30m commitment will occur in April when Kames next add to the fund.

RECOMMENDATION

10. Members are asked to:

    (1) Note the counterparties used for cash management.

    (2) Note the Probation transfer and agree that the decision is delegated to the Corporate Director of Finance and Procurement in consultation with Members.

    (3) Note the position on the DTZ discretionary portfolio.

    (4) Determine whether to seek to sell any of the indirect property holdings.

    (5) Note the Invesco transition.

    (6) Note the Sarasin transition.

    (7) Note the Kames investment.

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