By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 2 July 2014
Subject:	**FUND STRUCTURE**
Classification:	Unrestricted

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

FOR

INTRODUCTION

1. This report covers a number of issues relating to the structure and management of the Fund which are not commercially sensitive.

SELLING EQUITIES

2. At the last meeting of the Committee on 21 March the Committee agreed to sell £150m of equities to "bank" some of the profit made by staying overweight in equities in 2013. This would be taken from the State Street UK Equity mandate.

3. As has been reported by email £110m was moved out of the UK Equities on 23 April and where this Cash is now held is covered in item D5 on Treasury Management. Funds were withdrawn with the FTSE at 6,674, above the level of the 21 March decision.

4. The balance of £40m was to remain in equities until Fidelity and Kames draw down their additional funding. As none of this additional funding was drawn before June the extra drawdown from State Street was not made.

5. The Fund remains overweight in Equities with a total allocation of 69.4% against a benchmark of 64%. Looking at the UK the FTSE100 reached its highest level of 6,930 in December 1999. In the last 4 months the index has risen above 6,850 on 6 occasions but has fallen back. More bullish commentators are particularly concerned about valuations of UK equities with average Price/Earnings ratio at 24.5 well above the average of 15. Hymans Robertson's latest Capital Marketsis attached in the Appendix. Members are asked to consider whether they wish to retain their overweight position.

DTZ

6. DTZ will be attending this meeting of the Committee to present their 2014 strategy and their quarterly report was sent to members of the committee.

7. The main issues to highlight are:

   (1) The Fund returned +13.1% against the customised Investment Property Databank return of +11.1% - outperforming by +1.8%.

   (2) The longer term performance numbers also show strong outperformance.

	Fund %	Benchmark %	Relative %
3 Years	9.6	6.8	+2.6
5 Years	11.3	8.0	+3.0
10 Years	8.8	6.4	+2.2

This very strong performance is reflected in the Fund winning the IPD UK Property Awards 2014 Highest Annualised Return to 31 December 2013 for Segregated Funds £100 – 500m.

   (3) DTZ have purchased 1-3 and 4-8 The Sanctuary, London a multi-let office adjacent to Westminster Abbey for £21.18m.

   (4) In the 3 months to March 2014 All Property returned +3.9% made up of capital growth of +2.3% and income return of 1.6%.

   (5) DTZ forecast property will return +6.7% per annum over the next 5 years but with returns front loaded to 2014 and 2015.

8. On 16 June it was announced that DTZ's latest owner, UGL, has sold DTZ to a consortium of TPG Capital, TPG Asia Capital and the Ontario Teachers Pension Plan.

SECONDARY PROPERTY

9. Fidelity invested the majority of their first £30m quickly and their Fund returned +4.1% in the 1st quarter of 2014. Fidelity's view is that the investment by the Committee is well timed and they forecast returns of 9-12% over the next 2-3 years and beyond that returns in the region of 8%. The residual from the first £30m will be drawn down on 19 June and they hope to commit the other £20m by the end of July.

10. Kames applied for their first drawdown of £10.5m to be settled on 17 June.

RECOMMENDATION

11. Members are asked to:

(1) Determine whether to maintain the existing overweight position in equities.

(2) Note the position on the DTZ discretionary mandate.

(3) Note the position on funding the two Secondary Property mandates.

Nick Vickers
Head of Financial Services
Ext 4603