

By: Chairman Superannuation Fund Committee
Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 29 August 2014

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

Summary: To provide a summary of the Fund asset allocation and performance

FOR DECISION

INTRODUCTION

1. The Fund Position Statement is attached as at 30 June 2014. The Hymans Robertson Capital Markets Service Quarterly Update is attached in the Appendix.

QUARTER'S PERFORMANCE

2. At 30 June the Fund value was £4,203m. Overall the Fund returned +2.1% slightly behind the benchmark of +2.3%. The Fund's performance ranked in the 34th percentile on the WM Locality Authority Index.
3. The Fund's run of strong performance has largely been driven by Schroders UK Equities, Invesco UK Equities and Baillie Gifford Overseas Equities. With Invesco now no longer managing money and Baillie Gifford underperforming in the Quarter and 12 months, the long term drivers of performance are reduced in impact.
4. Neither M&G or Sarasin have delivered any outperformance to date. The Head of Financial Services has met with each manager and there are no underlying issues. Both managers will be at the Committee's November meeting.
5. DTZ remain an area of strength and clearly the UK property market is producing strong returns.
6. The Fund's overweight position in Equities has reduced due largely to the higher cash position and funding Fidelity and Kames . The equity allocation at 31 July was 66.9% against a benchmark of 64% and equity markets to date have better back in August. As at 30 June the equity overweight was £121m. Members are asked to consider whether they wish to change the overweight position.

PROBATION TRANSFER

7. It has now been confirmed that in January 2015 the Fund will need to pay £60m to the Greater Manchester Pension Fund when all Probation staff transfer to a single LGPS fund. Members had previously decided that the funding should be taken from the Schroders Fixed Income mandate.

WM UK LOCAL AUTHORITY ANNUAL REVIEW 2013/14

8. WM's annual report for 2013/14 are enclosed with these papers. Given that WM hold huge amounts of data, it is a valuable source of information and contradicts the CLG statements in their May 2014 report about a lack of transparency of LGPS funds.
9. The main points to highlight are:
- (1) **p5 Performance of Active Managers** – this shows the majority of active managers outperforming the index – with a significantly higher level for UK equity managers than Global equities.
 - (2) **p7-8 Tobacco Stocks** – this supports our previous contention based on figures from Invesco. Over 20 years tobacco stocks have outperformed the market by almost 10% per annum. Tobacco stocks have underperformed the market in the last two years and we have seen managers reducing their holdings.
 - (3) **p12 Equity Allocations** – the average weighting is 63%, the Kent Fund has a benchmark weight of 64% and the actual allocation has been closer to 70% and at 30 June was 66.9%.
 - (4) **p21 UK v Overseas/Global Equity Allocations** – with the Fund being an equal allocation to UK and Overseas/Global equities the Fund's UK proportion is far higher than average.
 - (5) **p23 Alternatives** – recent years have seen the investment consultancy industry promoting diversification through greater investment in non-property alternatives. The WM figures really do question the effectiveness of this:
 - Active currency mandates have 'almost disappeared' – the Committee rejected this approach three years ago.
 - Private equity, hedge funds and infrastructure have underperformed equities.
 - The results for pooled Multi-Asset managers (diversified growth/absolute return) are also disappointing.
 - (6) **p24 Property** – the Fund is only slightly above average with an allocation of 10% compared with 8%. Whilst local authority funds as a whole have underperformed the IPD UK All Property Index the Kent Fund has outperformed its fund specific IPD benchmark by +2.2% per annum over 10 years. This reflects the strong performance of DTZ and the Committee's decisions on timing increases.

The findings overall reinforce that the Fund's overweight in equities have been beneficial in recent years, but on the basis of mean reversion the key question is how the Fund will deal with weaker equity performance.

RECOMMENDATION

10. Members are asked to:

- (1) Determine whether they wish to maintain the Equity allocation at the current level;
- (2) Confirm that the Probation transfer will be funded from the Schroders Fixed Income mandate and delegate agreeing this transfer to the Head of Financial Services; and
- (3) Note the WM Local Authority Annual Review.

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