

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

To: Superannuation Fund Committee – 20 March 2015

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

Summary: To provide a summary of the Fund asset allocation and performance, and update on associated investment issues.

FOR DECISION

INTRODUCTION

1. The Fund Position Statement is attached as at 31 December 2014 in Appendix 1. The Hymans Robertson Capital Markets Service Quarterly Update is attached in the Appendix 2.

QUARTER'S PERFORMANCE

2. At 30 December the Fund value was £4,354m an increase of £152m in the quarter. Overall the Fund returned +2.4% slightly behind the benchmark of +2.5%. The Fund's performance ranked a disappointing 87th percentile on the WM Locality Authority Index.
3. In terms of market returns:
 - (1) The strongest performing equity market was North America. Investment managers with a value bias are likely to be underweight in North America due to the high valuations.
 - (2) UK Index Linked securities were the strongest performer in Fixed Income, the Fund has a minimal allocation to this asset class so again this detracted from performance.
 - (3) UK Property continues to perform strongly and this will be covered in more detail elsewhere in this report.
4. The Fund's allocation to equities was 64.5% against a benchmark of 64%. The use of Cash and additions to Property have substantially reduced the overweight position in equities. The Head of Financial Services will bring forward proposals to amend the Fund asset allocation to reflect the higher allocation to Property.
5. Now considering the performance of the investment managers:
 - (1) Of the active equity managers Schroders UK equities and Baillie Gifford performed well in the quarter and the three year numbers are good for both managers.

- (2) Other active equity managers disappointed with Schroders Global Active value, Sarasin and M&G all behind benchmark in the quarter, and Schroders and M&G were behind benchmark in the year. Sarasin have only managed the Fund for nine months and they too were behind benchmark. The particular problems of M&G are examined in the Fund Structure report.
- (3) Both Fixed Income managers were behind benchmark in the quarter but were ahead over 1 and 3 year periods.
6. Typically investment managers have a bias towards value investing, buying stocks when they are comparatively out of favour and gaining from the upside. Equity markets in 2015 favoured already relatively expensive US equities, value stocks underperformed for the fifth consecutive year and developed markets continued to outperform emerging markets. Industry figures show that between 75 and 80% of active managers underperformed their benchmark in 2014.
7. In periods of disappointing relative performance it is important to understand why the underperformance occurred. A combination of asset allocation that lost the Fund value and underperformance by global equity managers is the explanation of the 2014 relative performance. These should be short term headwinds.

PROBATION TRANSFER

8. The transfer to the Greater Manchester Fund took place in December, £64.4m was transferred from Cash as the Committee agreed.

CASH POSITION

9. The Fund's cash position as at 6 March 2015 was:

Class	Type	Deal Ref	Counterparty	Principal O/S (£)
Deposit	Call	HSBC	HSBC Bank plc	10,000,000
	Call Total			10,000,000
Deposit	MMF	Insight	Insight Liquidity Sterling C5	14,155,617
Deposit	MMF	HSBC Global Liquidity Sterling Fund	HSBC Global Liquidity Sterling A	2,599,913
Deposit	MMF	Deutsche Managed Sterling Fund	Deutsche Managed Sterling Acc	8,957,389
Deposit	MMF	SSgA GBP Liquidity Fund	SSgA GBP Liquidity Fund	12,901,039
Deposit	MMF	LGIM Sterling MMF	LGIM Liquidity Fund	14,652,733
Deposit	MMF	Aviva Investors Sterling Liquidity Fund	Aviva Investors Sterling Liquidity Fund	12,895,696
Deposit	MMF	Blackrock Heritage Fund	Blackrock ICS Institutional Sterling Government Heritage Dis	133,224
	MMF Total			66,295,611
Grand Total				76,295,611

PROPERTY

10. On 4 March the Head of Financial Services attended the DTZ Quarterly Investment Committee. Although the customised IPD performance benchmark has not been finalised it would seem that the Fund returned 21.1% against a benchmark of 17.9%. So once again the Fund's performance has been very strong and DTZ will explain this in more detail when they meet the Committee.

11. I would like to highlight in summary:

- (1) DTZ have made one acquisition in the quarter 151-161 Kensington High Street, London for £24.9m. This is a block of five retail units with residential units on the upper floors on long leases located a short walk from High Street Kensington Underground station.
- (2) DTZ have successfully sold three properties which have been on the sale list long term, Castle Terrace in Edinburgh where a sale price of £5.16m was achieved on a bounce in the market post the referendum and the two small Harrow units. DTZ also sold off the £20.4m position in the Blackrock Property Fund for a profit.
- (3) A summary of the Advisory mandate now including the M&G residential Property Fund is attached in Appendix 3. The Head of Financial Services is meeting with M&G in April.

12. DTZ are due to present their strategy report to the next meeting of the Committee in June. Given the breadth of what they do for the Fund trying to compress this into a 45 minute session really does not work. Members are asked whether they would like a longer session with DTZ at a one-off meeting in Maidstone.

13. In late 2014 the Fund invested £50m rising to £70m in the Fidelity UK Real Estate Fund and Fidelity will be presenting at this meeting and their presentation booklet has been attached with these papers. This is an open ended fund investing in secondary assets.

14. The Fidelity fund was the best performing property pooled fund in 2014 returning 24.2% against a benchmark of 17.2%. So not only was the timing of the Committee's investment good but the selection of Fidelity also added value. A quarterly summary is attached in Appendix 4.

15. The Fund has also invested £60m in the Kames UK Active value Unit Trust. This is a close ended secondary fund. A quarterly summary is attached in Appendix 5.

16. The Fund has achieved a significant increase in its property allocation particularly over the last 18 months. The estimated value of commitments is:

	£m
DTZ Direct and Indirect	421
DTZ Advisory	44
Fidelity	70
Kames	60
Total	595

This is an allocation of 13.7% against a benchmark of 10%.

17. Fidelity are forecasting a return of 15% for 2015, DTZ are as always less optimistic forecasting a 5 year annual return of 6.5% but front loaded-DTZ's forecasts do tend to be rather pessimistic.

Recommendation

18. Members are asked to note this report.

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