

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

To: Superannuation Fund Committee – 26 June 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 as at 31 March 2015 is attached in Appendix 1. By way of background on the markets the Goldman Sachs Asset Management Macro Insights is attached in Appendix 2.

QUARTER'S PERFORMANCE

2. After a run of relative underperformance the Fund outperformed the benchmark in the quarter with a strong 5.2% return.
3. The main features were:
 - (1) Strong performance from Overseas Equity markets – particularly Japan (where most investment managers own very little) and Europe excluding UK benefitting from the monetary stimulation from the European Central Bank. UK equities picked up but underperformed Overseas equities.
 - (2) Fixed income returns were good in absolute terms but lagged equities.
 - (3) UK Property returned 3% in the quarter and most forecasts are for a good double digit return in 2015.
4. Given the Fund's relatively high UK equity allocation to Overseas equities and relatively low Fixed Income allocation, overall asset allocation was negative and their largely contributed to the Fund ranking in the 66th percentile in the WM Local Authority Average.

5. At investment manager level the main variances were:
 - (1) Outperformance:
 - The largest outperformance came from Woodford Investment Management.
 - Baillie Gifford performed strongly to move back to a broadly benchmark return for the last 12 months.
 - Schroder's UK Equities performed at benchmark.
 - GSAM Fixed Income was well ahead of benchmark.
 - (2) Underperformance:
 - M&G global equities once again underperformed.

YEAR'S PERFORMANCE

6. The Fund had a strong absolute return of 11.2% in 2014/15 but underperformed the benchmark of 11.6%. This underperformance is even more marked if the Fund had been at its notional benchmark which returned 12.4%.
7. The Fund was in the 85th percentile relative to the WM Local Authority Average. The underperformance in 2014/15 comes from:
 - (1) Asset allocation – relative underweighting of Overseas Equities to UK Equities – in 2014/15 UK Equities returned 6.6% and US Equities 25.1%. And the underweight to Fixed Income and within this to Gilts in-particular-UK Government Bonds returned 14.6% in 2014/15 and the Fund had a low exposure.
 - (2) Investment manager – M&G and Schroder's Global Active Value both significantly underperformed. M&G have given an account of the reasons for their underperformance and Schroder's GAV is a value orientated fund underweighting US equities.
8. The main areas of good performance were:
 - (1) Schroder's UK equities – continuing a run of good performance.
 - (2) Schroder's and GSAM Fixed Income – both managers outperformed their benchmarks but the benchmarks included very little in gilts.
 - (3) Property – the asset class performed strongly, the Fund added to the asset class and had both DTZ and Fidelity outperforming strongly.

9. From the perspective of confidence in our investment managers the strongest is in our UK Equity managers Schroder's and Woodford which makes it hard to reduce the UK equity weighting. An option to reduce the UK allocation at some future point would be to switch the passively managed funds to the State Street global equity fund.
10. Looking forward there are reasons to believe that the Fund's asset allocation will move back to adding value in the near time based on:
 - (1) Over long periods a close correlation between equity market returns. This suggests UK equities will outperform particularly US equities moving forward.
 - (2) When gilt yields start to rise the below average allocation to Fixed Income and Gilts in particular will add value.
 - (3) Consensus forecasts are for another good year of returns from UK Property.

It is a concern that Baillie Gifford remain the only Overseas Equity manager to add value – Schroder's GAV, Sarasin and M&G remain concerns. The Fund continues to be well served by its Fixed Income and Property managers.

ACTUARIAL RETURN

11. The actuary assumes a return of +6.5% per annum and in the two years completed leading up to the next actuarial valuation the Fund has returned +8.5% and +11.2%. So against the key measure for the valuation the Fund has significantly outperformed.

CASH POSITION

12. As at 5 June the Fund held £34m in Money Market Funds and call accounts as follows:

Counterparty Name	£'000
HSBC Bank - FIBCA	10,000
LGIM Liquidity Fund	8,849
Deutsche Managed Sterling Fund	5,629
Insight Liquidity Sterling Fund	4,938
Aviva Investors Sterling Liquidity Fund	4,541
HSBC Global Liquidity Sterling Fund	40
SSgA GBP Liquidity Fund	8
Blackrock ICS Institutional Sterling Government Fund	3
Total	34,009

ASSET ALLOCATION

13. The Fund has a target asset allocation of 10% to Property and the actual allocation at 31 March was 12.5%. The Committee has also decided not to add to the Fund of Funds Infrastructure and Private Equity mandates which have a notional allocation of 2.5% each but which actually stand at around 1% each.
14. Members are asked to consider the following:
 - (1) Reducing the Private Equity and Infrastructure allocations to 1% each.
 - (2) Increasing the Property allocation to 13%.
15. No other changes to asset allocation are proposed now.

RECOMMENDATIONS

16. Members are asked to:
 - (1) Note the investment returns.
 - (2) Note the Cash position.
 - (3) Determine whether to change the asset allocation as set out in paragraph 14.

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