

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

To: Superannuation Fund Committee – 28 August 2015

Subject: **FUND STRUCTURE**

Classification: Unrestricted

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

FOR DECISION

INTRODUCTION

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

WOODFORD INVESTMENT

2. The Head of Financial Services met with Woodford Investment on 3 August and the presentation booklet is attached in Appendix 1.
3. The main issues to highlight are:
 - (1) Investment performance has been strong. Since inception the fund has returned +8.32% against +1.5% for the FTSE All Share.
 - (2) Woodford now have £12bn under management all in the UK Equity strategies – but predominantly retail funds.
 - (3) The positioning of the portfolio is very similar to when the Fund first put monies with Neil Woodford in 2006. They remain sceptical about the strength of the economic recovery and favour stocks with good earnings growth, paying dividends, barriers to entry and businesses which are not based on the availability of cheap money.
 - (4) Woodford retains a strong interest in supporting early stage companies particularly in hi tech areas.
 - (5) Woodford continue to believe they can deliver high single digit returns.

IMPAX ASSET MANAGEMENT

4. The Head of Financial Services met with Impax on 20 July and the latest monthly report is attached in Appendix 2.
5. Impax have around £3bn under management including £600m in the strategy the Fund invests in. This strategy only invests in companies deriving at least 50% of their earnings from environmental themes. Impax have been strengthening their investment resource and enjoyed a strong year in 2013. But as the performance figures in Appendix 2 show they have struggled to consistently add value – the two benchmarks referred to are the MSCI All Countries World (a very commonly used global benchmark) and the FTSE ET which is a specific index of environmental companies.
6. The Fund's total invested with Impax is small at £32m but it does provide exposure to a set of investment opportunities that other investment managers are unlikely to invest in.

DTZ INVESTORS

7. The Head of Financial Services attended DTZ's Investment Committee on 12 August. The main issues were:
 - (1) Purchases – the purchase of Dukes Lane, Brighton for £19.78m has been completed. An additional parcel of land has been bought on the Millbrook Trading Estate, Southampton for £450,000.
 - (2) Sales – the holding in the Henderson UK Shopping Centre Fund has been sold for £2.7m. DTZ will shortly market the George Street, Edinburgh property.
 - (3) Investment performance – returns have picked up and DTZ are forecasting a return of 15% in 2015. Again performance is being driven by London and the South East. However, they are forecasting returns of around 3.5% per annum 2017/19.
 - (4) Battersea Park – the Head of Financial Services will give a verbal update.
8. At the June meeting DTZ were asked how much of the increase in value since they were appointed in 1995 is due to capital growth. In 1995 the portfolio was valued at £50m, DTZ have calculated that to 31 December there was investment of £215m and capital growth of £145m. The figures do not include income received. The return has been 10.8% per annum.

M&G RESIDENTIAL PROPERTY FUND

9. At the last Committee meeting it was agreed that an additional £20m would be invested in two tranches split equally between 2016 and 2017. But this was subject to a fee reduction and clarification of support to the fund manager Alex Greaves. M&G have agreed to reduce the investment management fee from 1% to 0.9% and confirmed that there are now two investment managers supporting Alex Greaves.
10. Given the size of the commitment to M&G it will be managed separately from the advisory funds mandate managed by DTZ.

FIXED INCOME MANDATES

11. As previously agreed by the Committee the Schroders Fixed Income mandate has been changed as of 27 July with £122m moved from the Broad Market Bond Fund into the Strategic Bond Fund.
12. Separately Goldman Sachs Asset Management have approached the Head of Financial Services with a view to making some small changes to their mandate (Appendix 3). The proposal is supported by Hymans Robertson..

DELEGATION ON CASH

13. As previously reported the Fund now has a marginally positive cashflow on a monthly basis. In particular when there is a cash call from DTZ for a new property or from Harbourvest or Partners Group sufficient cash may not be available. The Committee is asked to delegate to the Corporate Director of Finance and Procurement in consultation with the Chairman the power to meet cash calls by reducing other assets at his discretion – most likely State Street UK passive equities.

YFM PRIVATE EQUITY

14. YFM have approached the Fund over the new co-investment fund with YFM's Venture Capital Fund. The Chancellor of the Exchequer changed some of the rules around VC funds in the budget and this has led to some short term uncertainty until the Finance Bill gets Royal Assent. YFM asked if the Fund would meet the whole of a £3m acquisition as opposed to £1m which it would have made alongside £2m from the VC fund. As there was no authority to agree this variation from the investment mandate the matter is brought to the Committee.

HENDERSON SECONDARY PFI FUNDS

15. Henderson is now in the final stages of winding up the Funds and will then distribute cash and shares to investors. Barclays and HSBC are advising Henderson on the Initial Public Offering (IPO) and their advice is to make a Placing with institutional investors and that value will be generated through

investors in the Funds agreeing to a short additional lock up period. Arrangements have been put in place with HSBC on this basis.

FUTURE OF LGPS INVESTMENT MANAGEMENT

16. In his Budget on 8 July the Chancellor of the Exchequer

“Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments”.

17. The Head of Financial Services is attending a roundtable discussion arranged by the Local Government Association with CLG / Treasury on 17 August and will give an update on this.

RECOMMENDATIONS

18. Members are asked to:

- (1) Note the reports on Woodford, Impax, M&G, the Fixed Income funds, DTZ and Henderson.
- (2) Agree the proposed delegation on cash.
- (3) Determine whether to vary the investment mandate with YFM.
- (4) Note the position on the future of LGPS investment management.

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