

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

To: Superannuation Fund Committee – 6 November 2015

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

## **FOR DECISION**

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### **INTRODUCTION**

1. The Fund Position Statement is attached in the Appendix.

### **QUARTER'S PERFORMANCE**

2. The Fund declined in value by -3.6% in the Quarter but this was more than the benchmark return of -3.1% (-2.5% at strategic benchmark). This meant that the Fund lost £154m in value over the quarter. The WM Local Authority Average figures are not yet available.
3. At asset class level the main features were:
  - (1) A fall in all major equity markets, with the largest falls in Emerging Markets. North American and European markets fell less than the UK.
  - (2) Fixed income markets produced small positive returns.
  - (3) UK Property continued to perform strongly.
4. At investment manager level the main features were:
  - (1) All the equity managers except Woodford posted negative returns, Woodford was the stand out performer with a return of +0.6% against a benchmark of -5.7%. Of the other equity managers only Baillie Gifford were ahead of benchmark and Sarasin fell in line with benchmark. M&G had a particularly poor quarter.
  - (2) Both Fixed Income managers underperformed. Pyrford also underperformed and the Head of Financial Services is meeting them in November to discuss the underperformance in the last 12 months.

- (3) The one year return is a modest 2.2% at Fund level which is in line with the benchmark. The three year return is 8.8%, 0.5% ahead of benchmark and well ahead of the return required by the actuary.
5. It now seems that after a run of strong returns from equities markets are weak and global economic shocks such as the slowdown in China do seem to be capable of moving markets significantly downwards. The next major challenge is likely to be the impact of rising interest rates in the US and UK, although the timing of such moves does seem to be moving further out, in part due to Central banks concerns about the impact on fairly weak markets. The Fund's principal diversifier from equities is UK Property and that looks to be having another strong year with an anticipated return of around 15%.

### **ASSET ALLOCATION**

6. Two quarters of negative equity returns have meant that the Fund now has a small underweight position in equities (63.7% against 64%).
7. It is not proposed that any changes should be made.

### **FOSSIL FUEL INVESTMENTS**

8. In late September there was a coordinated campaign launched involving a range of lobbying organisations against fossil fuel investment by LGPS funds. The headline was a total investment of £14bn, the figure given for the Kent Fund was £324m although direct holdings are £204m. The campaign has also been picked up by local environmental groups.
9. Responses provided by members and officers have emphasized:
  - (1) The overriding fiduciary responsibility to current and future pensioners to be able to pay the pensions due and the responsibility to the local Council tax payer.
  - (2) The Fund does have a clear Environmental, Social and Governance policy in which we expect our external investment managers to act as responsible investors. The Fund will not take up positions on ethical grounds.
  - (3) The Fund does have investments in an environmentally based global equity mandate with Impax to emphasize environmental themes.

10. The exposure to fossil fuels has come down and we would hope that investment managers with the huge research resources available to them will seek out new areas of investment in companies that look to new technologies and reduce their reliance on diminishing resource based industries.

### **CUSTODY TRANSITION**

11. Northern Trust formally took over as the Fund custodian on 2 November. The role initially covers the core custody service previously undertaken by J P Morgan and a whole fund accounting service. After a period of parallel running we will end the use of the Euraplan Shareholder system. Real time information will put us in a much better position to respond quickly and accurately to Freedom of Information requests and requests on issues like fossil fuels.
12. When these services are established we will look to use Northern Trust for the performance reporting to Committee, both at the quarterly meetings and the monthly reports. The latter currently do not show the whole position of the Fund compared with benchmarks and we need to address this. At that time we will also look at the services which we currently buy from WM/StateStreet.

### **JOHN LAING SHARES**

13. With the winding up of the Henderson Secondary PFI Funds the Fund received John Laing shares valued at £4.9m. In the end there was no lock up period and we can now sell the shares but there is no authority from the Committee to do so. As this will be a decision based upon the best price that can be achieved it is proposed that a delegation is given to the Corporate Director of Finance & Procurement in consultation with the Chairman. The results of the sale will be reported back to the Committee.

### **RECOMMENDATIONS**

14. The Committee is asked to:
  - (1) Note the Fund Position.
  - (2) Determine whether it wishes to make any asset allocation changes.
  - (3) Determine whether it wishes to make any investment manager changes.
  - (4) Note the position on fossil fuels.

- (5) Note the position on custody.
- (6) Agree to delegate to the Corporate Director of Finance and Procurement in consultation with the Chairman the timing of the decision to sell the John Laing shares.

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