

From: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 8 September 2021

Subject: Fund Position

Classification: Unrestricted

Summary:

To provide a summary of the Fund's asset allocation and performance.

Recommendation:

The Committee to note the Fund's asset allocation and performance as at 30 June 2021

FOR INFORMATION

1. Introduction

- 1.1 This report provides an update on the asset allocation and manager performance.
- 1.2 A copy of the Fund Position Statement is at appendix 1

2. Asset Allocation

- 2.1 As at 30 June 2021 the Fund's value was £7.8bn, an increase of £266m over the quarter and table 1 below compares the actual asset allocation to that set out in the Fund's Investment Strategy.

Table 1 asset allocation

Asset Class	Value £m	Actual %	Benchmark %	Over / Under weight %
UK Equity	1,452	18.7	23.5	-4.8
Global Equity	3,327	42.8	32	10.8
Fixed Income	1,151	14.8	15	-0.2
Private Equity	209	2.7	4	-1.3
Infrastructure	93	1.2	3.5	-2.3
Property	802	10.3	13	-2.7
Absolute Return	546	7.0	8	-1.0
Cash	195	2.5	1	1.5
Total	7,774	100	100	

- 2.2 In December 2020, the Fund sold out of the UBS passive equity mandates to fund the implementation of the equity protection programme managed by Insight. The Fund continues to have exposure to passive UK and Global equities through the synthetic equity in the equity protection programme.
- 2.3 The current total equity allocation of the Fund (including the synthetic equity exposure as well as the value of the equity protection options) is 61.5%. which continues to remain overweight to its strategic allocation of 55.5% but within the range permitted by the re-balancing strategy.
- 2.4 The Fund is under-weight in all other asset classes other than cash managed internally which remains high at 2.7%. The sale of equities during the year for re-balancing the asset allocation is the main contributor to the high cash balance. The Fund has continued to hold cash in view of the uncertain market conditions and the lack of appropriate investment opportunities in other asset classes during the year.

3. Investment performance quarter to 30 June 2021

- 3.1 The Fund achieved a return for the quarter of 3.47% against a benchmark of 4.45%. The successful roll out of vaccines and opening-up of economies provided a boost to the equities which experienced a strong quarter although all asset classes achieved positive returns
- 3.2 The quarter saw UK value and cyclical stocks build on the gains from the previous quarter and global stock markets experienced another strong quarter driven by record levels of liquidity. Equities remained the strongest performing asset class.
- 3.3 Performance from most of the active managers however fell short of benchmark returns, except for Baillie Gifford managing the global equity core portfolio and Impax managing an environmental portfolio.
- 3.4 The continued rise in global stocks has seen the market levels reach the caps stipulated in the Fund's equity protection programme. This will negatively impact the fund's participation in further rises in global equities.
- 3.5 Concerns around rising inflation have impacted the returns on the Fixed income portfolios. During the quarter, the CQS mandate was the best performing in this environment with their overweight positions in senior secured loans and asset-based securities. The Schroders' bonds mandate delivered negative performance in the quarter; their currency strategy being the main drag on performance, along with their rates strategy detracting from performance.
- 3.6 Property valuations and rent collections have improved on the back of improving market sentiment, although the growth is divergent among the different property sectors. High levels of voids and some asset management projects have negatively affected returns in some portfolios in the Fund. The Fidelity portfolio recorded a material out-performance against benchmark as a result of overweight positions in industrial and office sectors which showed the strongest signs of growth and recovery respectively.
- 3.7 Private equity and Infrastructure valuations showed mixed results, partly due to the timing of drawdowns. Harbourvest funds continued to record a strong growth in the quarter of 12%.

3.8 Returns achieved by the Absolute Return portfolios remained positive although both the Pyrford and the Ruffer mandate underperformed the benchmark of 3.58%. In particular, Ruffer's interest rate protection options gave back some of the gains after shielding the portfolio from the impact of rising bond yields in the previous quarter.

4. Longer term investment returns

4.1 The Fund has achieved better than benchmark returns in both the one-year and three-year periods.

4.2 The Fund's one-year performance was 18.62% compared to the benchmark return of 14.69% for the same period.

4.3 The high one-year performance reflects the uplift from a low base after the dip in March 2020, most significantly in the case of listed and private equities, as well as in property.

4.4 All active managers have achieved better than benchmark returns in the one-year period except for Pyrford managing an absolute return fund, M&G managing the residential property fund, and Aegon (Kames) managing the close ended UK property fund. Baillie Gifford, Impax and Ruffer have been the star out-performers in this period.

4.5 The Fund achieved an annualised return of 8.15% compared to 5.97% over the three-year period ending June 21.

4.6 Fund manager performance has been mixed over the three-year period. with Baillie Gifford achieving a return of 40.2% which is nearly double its benchmark annual return of 22%.

4.7 Global listed and private equities have been the strongest performing asset classes in the three-year period followed by absolute return. However, Pyrford under-performed across all time horizons in this period. The Fund continues to hold the Pyrford investment as a strategic diversifier.

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