

12 March 2020
Agenda Item: 8

REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

FUND VALUATION AND PERFORMANCE

Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 31 December 2019.

Information

2. This report is to inform the Pension Fund Committee of the value of the Pension Fund at the end of the latest quarter and give information on the performance of the Fund. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.
3. The table below shows a summary of the total value of the investment assets of the Fund as at 31 December 2019, in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark was reviewed and changed early in 2019. This is a long-term target and it will take some years to achieve it.

	Latest Quarter		Long term	Previous Quarter		Previous Year	
	31 December 2019		Benchmark	30 September 2019		31 December 2018	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,485	60.4%	56%	3,389	59.6%	2,943	57.5%
Private	510	8.8%	12%	505	8.9%	385	7.5%
Property	733	12.7%	15%	733	12.9%	796	15.5%
Bonds							
Gilts	190	3.3%	2%	193	3.4%	147	2.9%
Other Bonds	712	12.3%	13%	687	12.1%	696	13.6%
Cash	141	2.4%	2%	181	3.2%	154	3.0%
	5,770	100%	100%	5,687	100%	5,120	100%

4. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £306.1m or 5.3% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 5.8% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.

5. The table below shows the detailed breakdown by portfolio of the Fund as at 31 December 2019 together with the total value of each portfolio at the previous quarter end.

	Core Index		Schroders		Kames		Kames S		Aberdeen		Specialist		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
UK Bonds														
Gilts					189.7	37%	0.0	0%					189.7	3%
Corporate Bonds					288.6	57%	200.1	100%					488.7	8%
					478.3	94%	200.1	100%					678.4	12%
Overseas Bonds														
Corporate Bonds					11.8	2%	0.0	0%					11.8	0%
					11.8	2%	0.0	0%					11.8	0%
Inflation Linked											210.1	15%	210.1	4%
UK Equities	600.2	42%	834.3	50%							53.0	4%	1,487.5	26%
Overseas Equities														
North America	321.9	22%	477.1	29%							0.0	0%	799.0	14%
Europe	188.8	13%	129.3	8%							177.0	13%	495.1	9%
Japan	110.5	8%	72.9	4%							91.5	7%	274.9	5%
Pacific	106.7	7%	46.1	3%									152.8	3%
Emerging Markets	74.9	5%	76.7	5%							92.2	7%	243.8	4%
Global	31.8	2%									0.0	0%	31.8	1%
	834.6	58%	802.1	48%							360.7	26%	1,997.4	35%
Private Equity											205.1	15%	205.1	4%
Infrastructure											306.1	22%	306.1	5%
Property														
UK Commercial									440.4	74%			440.4	8%
UK Commercial - Local									23.9	4%			23.9	0%
UK Strategic Land									7.4	1%			7.4	0%
Pooled - UK									19.1	3%	138.1	10%	157.2	3%
Pooled - Overseas									103.2	17%	0.7	0%	103.9	2%
									594.0		138.8	10%	732.8	13%
Cash/Currency	3.7	0%	18.3	1%	18.5	4%	0.0	0%			100.6	7%	141.1	2%
Total	<u>1,438.5</u>	25%	<u>1,654.7</u>	29%	<u>508.6</u>	9%	<u>200.1</u>	3%	<u>594.0</u>	10%	<u>1,374.4</u>	24%	<u>5,770.3</u>	
Previous Qtr Totals	1,445.0	25%	1,605.2	28%	518.0	9%	170.5	3%	597.2	11%	1,351.3	24%	5,687.2	

6. The Fund investments have increased by £83.1 million (1.5%) since the previous quarter. Fund investments have increased by £650.4 million (12.7%) over the last 12 months. The 12 month figures are impacted by the sharp drop in equity markets in December 18 which has dropped out of the figures, leaving the recovery in the quarter to March 19 which inflates the returns for that particular period.

7. The table below shows the Fund Account for 2019/20 to date along with the full year figures for 2018/19.

	Q3	Full Year
Summary Fund Account	2019/20	2018/19
	£000	£000
Employer contributions	(105,668)	(135,001)
Member contributions	(35,398)	(46,216)
Transfers in from other pension funds	(6,487)	(9,473)
Pensions	128,964	162,267
Commutation of pensions and lump sums	28,980	34,937
Lump sum death benefits	3,955	4,495
Payments to and on account of leavers	9,957	34,732
Net (additions)/withdrawals from dealings with members	24,303	45,741
Administration Expenses	37	2,112
Oversight & governance expenses	682	1,630
Investment Income	(62,035)	(162,772)
Profits & losses on disposals & changes in value	(302,842)	(154,446)
Taxes on income	245	850
Investment management expenses	2,387	5,410
Net Returns on Investments	(362,245)	(310,958)
 Net (increase)/decrease in net assets	 (337,223)	 (261,474)

Core Index Portfolio

8. Below are detailed reports showing the valuation of the Core Index portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark (and a comparison with the previous quarter). The benchmark changed in the second quarter of 18/19 as part of a long term aim to bring our overseas developed market passive investments to be consistent with the regional allocation of the LGPS Central Overseas passive fund as agreed at the June Pension Fund Committee. This will be a gradual change over time. The Global category below is around £10m LGPS Central Overseas passive fund, plus around £20m of the LGPS Central Global Equity Active fund. From 20/21 we will separate the LGPS Central investments into their own portfolio. In the meantime this active investment distorts this sector of the Core Index portfolio.

	31 December 2019			30 September 2019	
	Portfolio	B/Mark		Portfolio	
	£000	%	%	£000	%
UK Equities	600,218	41.7%	40.0%	575,969	39.9%
Overseas Equities:	834,652	58.0%	59.5%	865,434	59.9%
North America	321,892	22.4%	18.0%	358,502	24.8%
Europe	188,850	13.1%	18.0%	187,198	13.0%
Japan	110,511	7.7%	9.0%	110,237	7.6%
Pacific Basin	106,685	7.7%	9.0%	106,098	7.3%
Emerging Markets	74,944	5.2%	5.5%	72,195	5.0%
Global	31,770	2.2%	0%	31,204	2.2%
Cash	3,677	0.3%	0.5%	3,593	0.2%
Total	1,438,547			1,444,996	

9. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	0	0	0
Overseas Equities			
North America	0	40,000	-40,000
Europe	0	0	0
Japan	0	0	0
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global	0	0	0
Totals	0	40,000	-40,000

The £40 million sale is part of a gradual reduction in our NA equity overweight to fund commitments in other parts of the fund in line with our asset allocation. The impact of this on asset allocation was more than offset by the increase in equity values over the quarter.

Schroder Investment Management Portfolio

The table below summarises the valuation and compares it to Schroders' benchmark. The position at the end of the previous quarter is also shown.

	31 December 2019			30 September 2019		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	834,293	50.4%	50.0%	779,019	48.5%	
Overseas Equities	802,070	48.5%	49.5%	781,857	48.7%	
North America	477,066	28.8%	28.9%	470,171	29.3%	
Europe	129,316	7.8%	8.3%	119,802	7.5%	
Japan	72,919	4.4%	4.7%	71,815	4.5%	
Pacific Basin	46,081	2.8%	3.0%	45,124	2.8%	
Emerging Markets	76,688	4.6%	4.6%	74,945	4.7%	
Cash	18,339	1.1%	0.5%	44,291	2.8%	
Total	1,654,702			1,605,167		

10. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	58,655	34,076	24,579
Overseas Equities			
North America	29,678	0	29,678
Europe	31,551	24,184	7,367
Japan	5,662	5,354	308
Pacific Basin	3,047		3,047
Emerging Markets	0	0	0
Totals	128,593	63,614	64,979

Kames Capital

11. The table below summarises the valuation and compares it to Kames' benchmark. The position at the end of the previous quarter is also shown.

	31 December 2019			30 September 2019		
	Portfolio		B/Mark	Portfolio		B/Mark
	£000	%	%	£000	%	%
UK Bonds						
Gilts	189,720	37%	30%	193,161	37%	30%
Corporate Bonds	288,631	57%	70%	291,383	56%	70%
Overseas Bonds						
Corporate Bonds	11,835	2%		22,556	4%	
Cash	18,332	4%		10,721	2%	
Total	508,518			517,821		

12. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Bonds			
Gilts	133,936	129,781	4,155
Corporate Bonds	5,697	4,138	1,559
Overseas Bonds			
Government Bonds	0	30,495	-30,495
Corporate Bonds	31,655	9,343	22,312
Totals	171,288	173,757	-2,469

Aberdeen Standard Investments (ASI)

13. The Committee is asked to note that approval was given in the quarter to the following, after consultation with Members where appropriate, as operational matters falling under the responsibility of the Service Director, Finance, Infrastructure & Improvement exercised by the Senior Accountant (Pensions & Treasury Management):

Date	Property	Transaction
10/10/2019	Queen Street, Cardiff	Short-term lease
15/10/2019	Queen Street, Cardiff	Rent review
21/10/2019	Queen Street, Cardiff	Wayleave Agreement
28/10/2019	Grovebury Retail Park, Leighton Buzzard	DFA Variation
20/11/2019	Units 2B and 2C, Bagshot Retail Park, London Road, Bagshot	Exclusivity Agreement
25/11/2019	Kings Stables Road, Edinburgh	Engrossed leases
25/11/2019	Vertex Park, Emersons Green, Bristol	Alterations license
27/11/2019	Kings Stables Road, Edinburgh	Lease
27/11/2019	Grovebury Retail Park, Leighton Buzzard	S106 Agreement
27/11/2019	Cross Point Business Park, Coventry	Alterations license L&B
04/12/2019	Kings Stables Road, Edinburgh	Transaction Tax

06/12/2019	56-60 & 68 New Dover Road, Canterbury	License to assign
19/12/2019	Units 5 & 6, Crosspoint Business Park, Coventry	Lease
24/12/2019	Kings Stables Road, Edinburgh	L&B Transaction Tax
30/12/2019	Queen Street, Cardiff	Sale of property

Specialist Portfolio

14. Below are tables showing the composition and the valuation of the Specialist portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark. The position at the end of the previous quarter is also shown.

	31 December 2019		30 September 2019	
	£000	%	£000	%
Private Equity	205,100	16.1%	206,800	16.8%
Infrastructure	306,100	24.0%	299,400	24.4%
Property Funds	138,800	10.9%	135,600	11.0%
Kames DGF	210,100	16.5%	201,000	16.3%
Equity Funds	413,700	32.5%	386,700	31.5%
Total	1,273,800		1,229,500	

15. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	97	1,415	-1,318
Infrastructure	3,333		3,333
Property Funds	4,841	405	4,436
Kames DGF	0		0
Equity Funds	35,450	31,340	4,110
Totals	43,721	33,160	10,561

Statutory and Policy Implications

16. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

That members consider whether there are any actions they require in relation to the issues contained within the report.

Name of Report Author: Tamsin Rabbitts

Title of Report Author: Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments

17. This is an updating information report and Pension Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 28/2/2020)

18. There are no direct financial implications arising from this report.