

20 January 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 30 September 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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 30 September 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	
	30 September 2019		Benchmark	30 June 2019		30 September 2018	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,389	59.6%	56%	3,343	59.8%	3,427	62.3%
Private	505	8.9%	12%	476	8.5%	329	6.0%
Property	733	12.9%	15%	738	13.2%	760	13.8%
Bonds							
Gilts	193	3.4%	2%	183	3.3%	135	2.5%
Other Bonds	687	12.1%	13%	683	12.2%	722	13.1%
Cash	181	3.2%	2%	164	2.9%	126	2.3%
	5,687	100%	100%	5,586	100%	5,498	100%

4. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £299.4m or 5.3% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 5.9% 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 30 September 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					193.2	37%	0.0	0%					193.2	3%
Corporate Bonds					291.4	56%	170.5	100%					461.9	8%
					484.6	94%	170.5	100%					655.1	12%
Overseas Bonds														
Corporate Bonds					22.6	4%	0.0	0%					22.6	0%
					22.6	4%	0.0	0%					22.6	0%
Inflation Linked											201.0	15%	201.0	4%
UK Equities	576.0	40%	779.0	49%							46.8	3%	1,401.8	25%
Overseas Equities														
North America	358.5	25%	470.2	29%							0.0	0%	828.7	15%
Europe	187.2	13%	119.8	7%							167.6	12%	474.6	8%
Japan	110.2	8%	71.8	4%							86.6	6%	268.6	5%
Pacific	106.1	7%	45.1	3%									151.2	3%
Emerging Markets	72.2	5%	74.9	5%							85.7	6%	232.8	4%
Global	31.2	2%									0.0	0%	31.2	1%
	865.4	60%	781.8	49%							339.9	25%	1,987.1	35%
Private Equity											206.8	15%	206.8	4%
Infrastructure											299.4	22%	299.4	5%
Property														
UK Commercial									441.9	74%			441.9	8%
UK Commercial - Local									24.3	4%			24.3	0%
UK Strategic Land									8.0	1%			8.0	0%
Pooled - UK									17.4	3%	134.9	10%	152.3	3%
Pooled - Overseas									105.6	18%	0.7	0%	106.3	2%
									597.2		135.6	10%	732.8	13%
Cash/Currency	3.6	0%	44.3	3%	10.9	2%	0.0	0%			121.7	9%	180.5	3%
Total	<u>1,445.0</u>	25%	<u>1,605.1</u>	28%	<u>518.1</u>	9%	<u>170.5</u>	3%	<u>597.2</u>	11%	<u>1,351.2</u>	24%	<u>5,687.1</u>	
Previous Qtr Totals	1,451.2	26%	1,561.1	28%	494.7	9%	186.2	3%	605.1	11%	1,287.4	23%	5,585.7	

6. The Fund investments have increased by £101.4 million (1.8%) since the previous quarter. Fund investments have increased by £189.4 million (3.4%) over the last 12 months. The table below shows the Fund Account for 2019/20 to date along with the full year figures for 2018/19.

Summary Fund Account	Q2 2019/20 £000	Full Year 2018/19 £000
Employer contributions	(75,103)	(135,001)
Member contributions	(23,415)	(46,216)
Transfers in from other pension funds	(2,666)	(9,473)
Pensions	79,158	162,267
Commutation of pensions and lump sums	19,770	34,937
Lump sum death benefits	2,751	4,495

Payments to and on account of leavers	5,199	34,732
Net (additions)/withdrawals from dealings with members	5,694	45,741
Administration Expenses	19	2,112
Oversight & governance expenses	511	1,630
Investment Income	(38,245)	(162,772)
Profits & losses on disposals & changes in value	(223,586)	(154,446)
Taxes on income	243	850
Investment management expenses	1,252	5,410
Net Returns on Investments	(260,336)	(310,958)
 Net (increase)/decrease in net assets	 (254,112)	 (261,474)

Core Index Portfolio

7. 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 the LGPS Central Overseas passive fund.

	30 September 2019			30 June 2019		
	Portfolio	B/Mark		Portfolio		
	£000	%	%	£000	%	
UK Equities	575,969	39.9%	40.0%	568,585	39.2%	
Overseas Equities:	865,434	59.9%	59.5%	879,286	60.6%	
North America	358,502	24.8%	18.0%	380,211	26.2%	
Europe	187,198	13.0%	18.0%	184,483	12.7%	
Japan	110,237	7.6%	9.0%	103,445	7.1%	
Pacific Basin	106,098	7.3%	9.0%	107,896	7.4%	
Emerging Markets	72,195	5.0%	5.5%	72,872	5.0%	
Global	31,204	2.2%	0%	30,379	2.1%	
Cash	3,593	0.2%	0.5%	3,315	0.2%	
Total	1,444,996			1,451,186		

8. 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	40,007	-40,007
Europe	0	0	0
Japan	0	0	0
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global	0	0	0
Totals	0	40,007	-40,007

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.

Schroder Investment Management Portfolio

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

	30 September 2019			30 June 2019		
	Portfolio		B/Mark	Portfolio		B/Mark
	£000	%	%	£000	%	%
UK Equities	779,019	48.5%	50.0%	736,255	47.2%	
Overseas Equities	781,857	48.7%	49.5%	778,043	49.8%	
North America	470,171	29.3%	28.9%	474,396	30.4%	
Europe	119,802	7.5%	8.3%	117,618	7.5%	
Japan	71,815	4.5%	4.7%	67,589	4.3%	
Pacific Basin	45,124	2.8%	3.0%	45,461	2.9%	
Emerging Markets	74,945	4.7%	4.6%	72,979	4.7%	
Cash	44,291	2.8%	0.5%	46,793	3.0%	
Total	1,605,167			1,561,091		

10. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	48,256	9,611	38,645
Overseas Equities			
North America	0	25,296	-25,296
Europe	16,547	16,423	124
Japan	3,715	3,314	401
Pacific Basin			0
Emerging Markets	6,872	5,362	1,510
Totals	75,390	60,006	15,384

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.

	30 September 2019			30 June 2019		
	Portfolio		B/Mark	Portfolio		B/Mark
	£000	%	%	£000	%	%
UK Bonds						
Gilts	193,161	37%	30%	182,739	37%	30%
Corporate Bonds	291,383	56%	70%	281,966	57%	70%
Overseas Bonds						
Corporate Bonds	22,556	4%		13,101	3%	
Cash	10,721	2%		16,950	3%	
Total	517,821			494,756		

12. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Bonds			
Gilts	32,168	32,654	-486
Corporate Bonds	5,859	4,462	1,397
Overseas Bonds			
Government Bonds	0	0	0
Corporate Bonds	10,274	1,357	8,917
Totals	48,301	38,473	9,828

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
05/07/2019	14-22 Lands Lane, Leeds	Alterations license
08/07/2019	Unit E, Grovebury Retail Park, Leighton Buzzard	Alterations license
11/07/2019	Woodyard Lane, Wollaton, Nottingham	Access license
18/07/2019	Land at Dowding Way, Tunbridge Wells	License to assign
23/07/2019	1 Forward Drive, Harrow	Engrossment agreement
24/07/2019	Queen Street, Cardiff	Surrender of Lease
29/07/2019	Woodyard Lane, Wollaton, Nottingham	Sale to Avant Homes
31/07/2019	Grovebury Retail Park, Leighton Buzzard	DFA Variation
31/07/2019	Grovebury Retail Park, Leighton Buzzard	Collateral warranties
02/08/2019	Woodyard Lane, Wollaton, Nottingham	Deed of variation
06/08/2019	Woodyard Lane, Wollaton, Nottingham	Deed of variation
03/09/2019	Grovebury Retail Park, Leighton Buzzard	Engrossment of the Lease
23/09/2019	Grovebury Retail Park, Leighton Buzzard	Lease completion

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.

	30 September 2019		30 June 2019	
	£000	%	£000	%
Private Equity	206,800	16.8%	198,400	16.7%
Infrastructure	299,400	24.4%	278,200	23.4%
Property Funds	135,600	11.0%	133,200	11.2%
Kames DGF	201,000	16.3%	200,600	16.8%
Equity Funds	386,700	31.5%	380,200	31.9%
Total	1,229,500		1,190,600	

15. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	4,886	1,193	3,693
Infrastructure	15,039	0	15,039
Property Funds	1,780	0	1,780
Kames DGF	0	0	0
Equity Funds	53,650	57,767	-4,117
Totals	75,355	58,960	16,395

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.

Tamsin Rabbitts

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 13/12/2019)

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