

## Pension Fund Investment Sub-Committee

9 September 2019

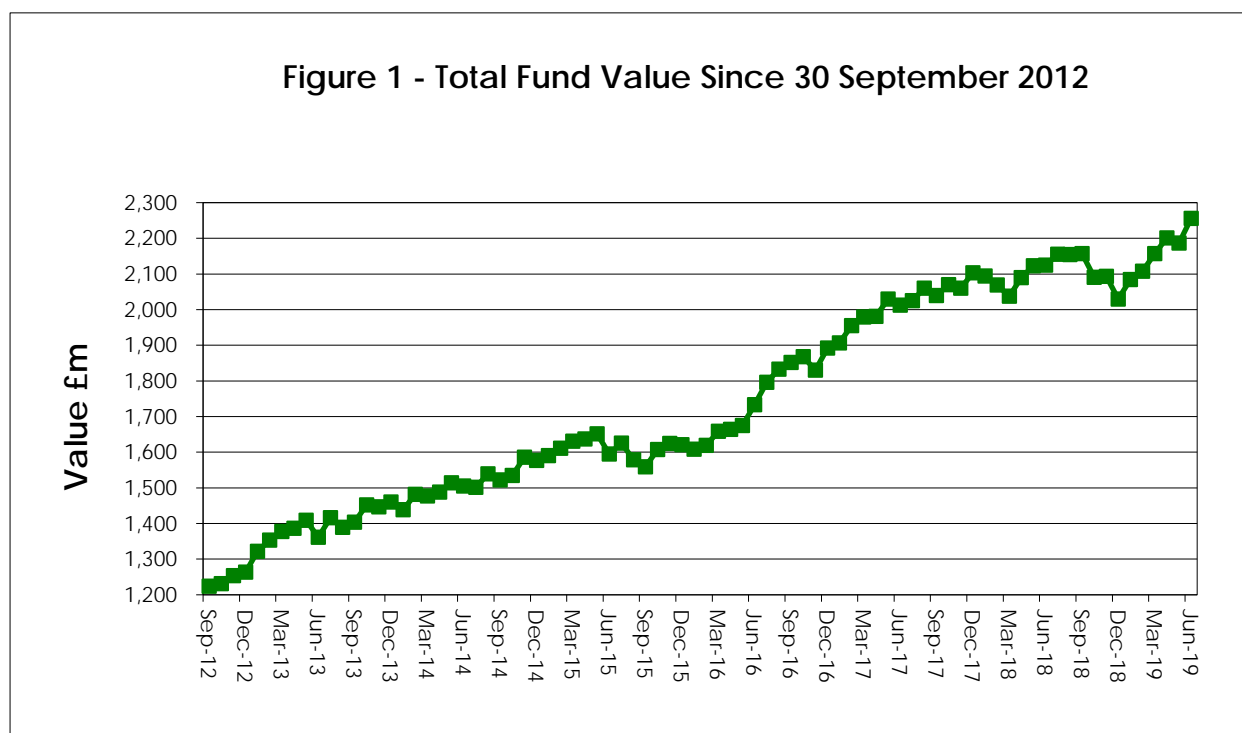
### Investment Performance

#### Recommendation

That the Pension Fund Investment Sub-Committee note the fund value and investment performance for the first quarter of 2019/20 to 30 June 2019.

#### 1. Fund Value at 30th June 2019

- 1.1 The fund value was £2,255.9m at 30 June 2019 an increase of 4.58% against the previous quarter of £2,157.2m at 31 March 2019 as shown in Figure 1.



- 1.2 Note that this shows the total value of the fund after accounting for all cashflows including investment related changes and also administration related e.g. transfers, contributions in, payments to pensioners. Work is under way to be able to provide a summary of these cashflows in future reports in order to provide more context.

## 2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 30 June 2019 is shown in Table 1.

**Table 1: Fund Asset Allocation**

Asset Class	Q/E Mar 2019	Movement from last Qtr to Current Qtr (Mar to Jun)	Q/E Jun 2019	Fund policy	Over/under weight	Tolerance
	%		%	%	%	
<b>Equity</b>	<b>55.7</b>	<b>1.2</b>	<b>56.9</b>	<b>54.5</b>	<b>2.4</b>	
UK	18.5	0.4	18.9	17.0	1.9	+/-2.5
Overseas	27.2	0.7	27.9	27.5	0.4	+/-2.5
Fundamental Global Equity	10.0	0.1	10.1	10.0	0.1	+/-2.5
<b>Fixed Income</b>	<b>16.2</b>	<b>-0.2</b>	<b>16.0</b>	<b>15.0</b>	<b>1.0</b>	
UK corporate bonds	10.8	-0.3	10.5	10.0	0.5	+/-1.5
UK index linked bonds	5.5	0.0	5.5	5.0	0.5	+/-0.5
<b>Private Equity</b>	<b>5.6</b>	<b>-0.8</b>	<b>4.8</b>	<b>4.0</b>	<b>0.8</b>	<b>n/a</b>
<b>Property</b>	<b>10.8</b>	<b>-0.6</b>	<b>10.2</b>	<b>10.0</b>	<b>0.2</b>	<b>n/a</b>
<b>Absolute Return Bonds</b>	<b>5.9</b>	<b>-0.2</b>	<b>5.7</b>	<b>7.5</b>	<b>-1.8</b>	<b>n/a</b>
<b>Infrastructure</b>	<b>2.2</b>	<b>0.2</b>	<b>2.4</b>	<b>4.0</b>	<b>-1.6</b>	<b>n/a</b>
<b>Private Debt</b>	<b>2.9</b>	<b>-0.1</b>	<b>2.8</b>	<b>5.0</b>	<b>-2.2</b>	<b>n/a</b>
<b>Cash</b>	<b>0.6</b>	<b>0.6</b>	<b>1.2</b>	<b>0.0</b>	<b>1.2</b>	<b>n/a</b>

Notes:

- **Equities** – (BCPP, MFS, LG). Ahead of transitioning global equities from MFS into BCPP a rebalancing exercise is being planned (July 19) to move £80m circa into Legal and General as part of an updated strategic asset allocation. Equities have performed well in Q2 and this has increased their proportion of the asset allocation.
- **Private Equities, Infrastructure** – these allocations continue to grow towards their target allocations as opportunities to invest are identified.
- **Absolute Return Bonds** – (JP Morgan) The fund seeks to maximise returns by investing primarily in a global portfolio of fixed and floating rate Debt Securities.

2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30 June 2019 is shown in Table 2 (A & B).

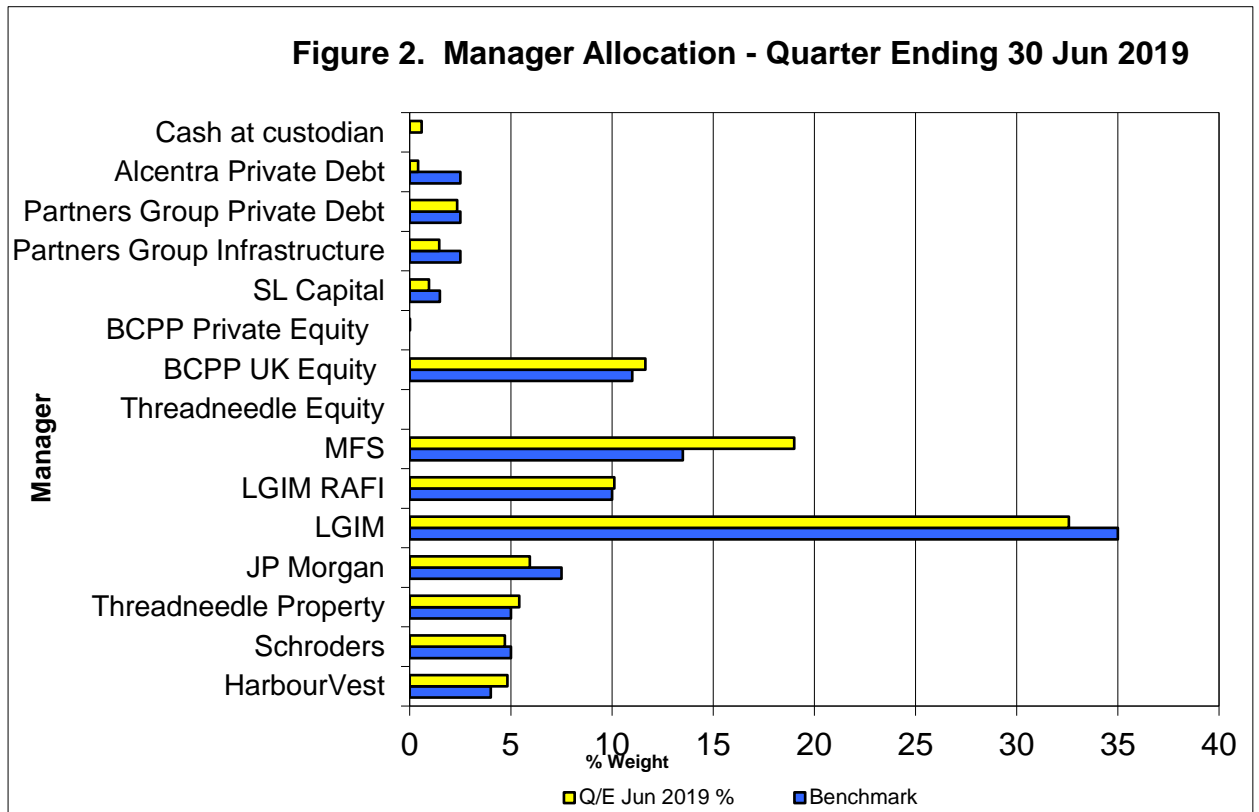
**Table 2: Fund Asset Allocation by Manager (percentage - A)**

<b>Manager</b>	<b>Q/E Mar 2019 %</b>	<b>Movement from last Qtr to Current Qtr (Mar to Jun)</b>	<b>Q/E Jun 2019 %</b>	<b>Benchmark</b>	<b>Variance Mar to Benchmark</b>
HarbourVest	5.6	-0.8	4.8	4.0	0.8
Schroders	4.9	-0.1	4.7	5.0	-0.3
Threadneedle Property	5.6	-0.2	5.4	5.0	0.4
JP Morgan	6.2	-0.5	5.7	7.5	-1.8
LGIM	32.5	0.1	32.6	35.0	-2.4
LGIM RAFI	10.0	0.1	10.1	10.0	0.1
MFS	17.9	1.2	19.1	13.5	5.6
BCPP UK Equity	11.7	0.0	11.7	11.0	0.7
BCPP Private Equity	0.0	0.0	0.0	0.0	0.0
SL Capital	0.8	0.1	1.0	1.5	-0.5
Partners Group Infrastructure	1.4	0.1	1.5	2.5	-1.0
Partners Group Private Debt	2.4	-0.1	2.3	2.5	-0.2
Alcentra Private Debt	0.5	-0.1	0.4	2.5	-2.1
Cash at custodian	0.5	0.1	0.6	0.0	0.6
<b>Total</b>	<b>100.0</b>	<b>-0.1</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

**Fund Asset Allocation by Manager (Monetary values - B)**

<b>Manager</b>	<b>Q/E Mar 2019 £</b>	<b>Movement from last Qtr to Current Qtr (Mar to Jun)</b>	<b>Q/E Jun 2019 £</b>	<b>Benchmark</b>	<b>Variance Jun to Benchmark</b>
HarbourVest	120.8	-11.9	108.9	90.2	18.6
Schroders	105.5	1.6	107.1	112.8	-5.7
Threadneedle Property	121.7	0.7	122.4	112.8	9.6
JP Morgan	133.7	-5.2	128.6	169.2	-40.6
LGIM	701.1	35.2	736.3	789.6	-53.3
LGIM RAFI	215.7	12.6	228.3	225.6	2.7
MFS	385.9	44.2	430.2	304.5	125.1
BCPP UK Equity	252.4	11.8	264.1	248.2	16.0
BCPP Private Equity	0.0	0.2	0.2	0.0	0.2
SL Capital	17.7	3.9	21.6	33.8	-12.2
Partners Group Infrastructure	30.2	2.7	32.9	56.4	-23.5
Partners Group Private Debt	51.8	1.0	52.8	56.4	-3.6
Alcentra Private Debt	10.3	-0.8	9.5	56.4	-46.9
Cash at custodian	10.8	2.7	13.5	0.0	13.5
<b>Total</b>	<b>2157.6</b>	<b>98.8</b>	<b>2256.4</b>	<b>2255.9</b>	<b>0.0</b>

2.3 Fund asset allocation against each manager is shown in Figure 2.



### 3. Fund Performance

3.1 Overall the fund performed better than its benchmark. The performances of managers against their benchmarks for the quarter ending 30 June 2019 was:

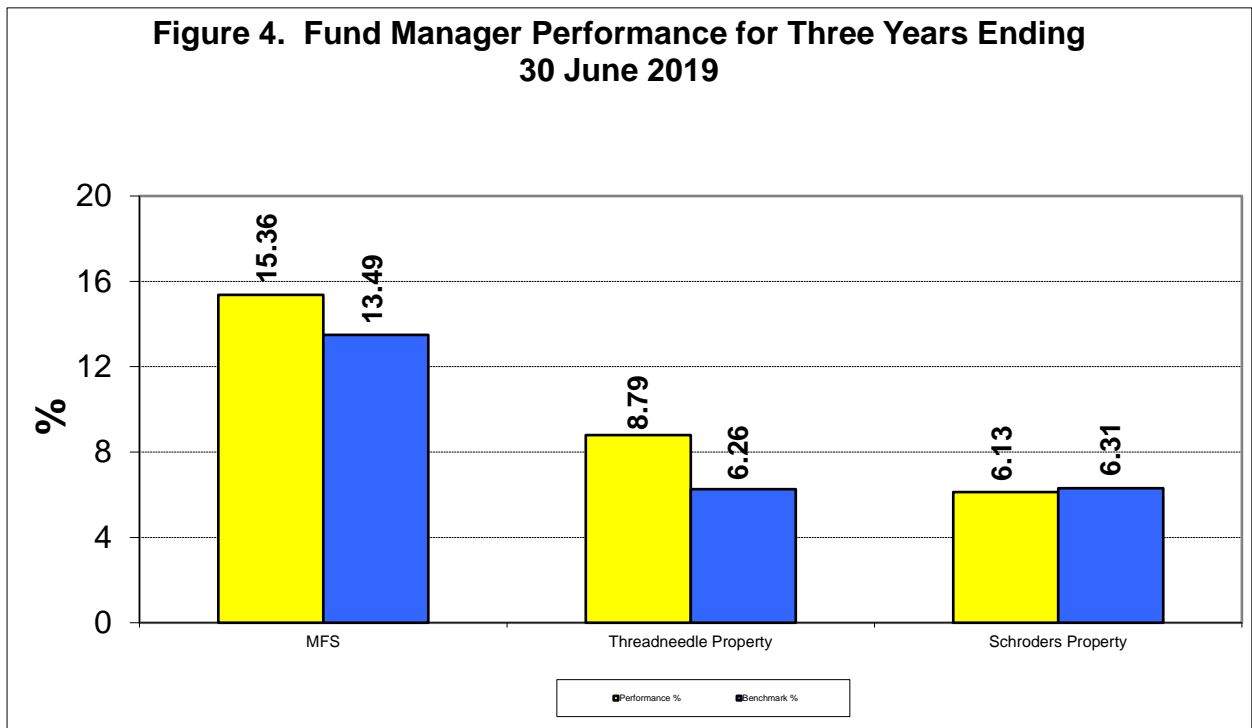
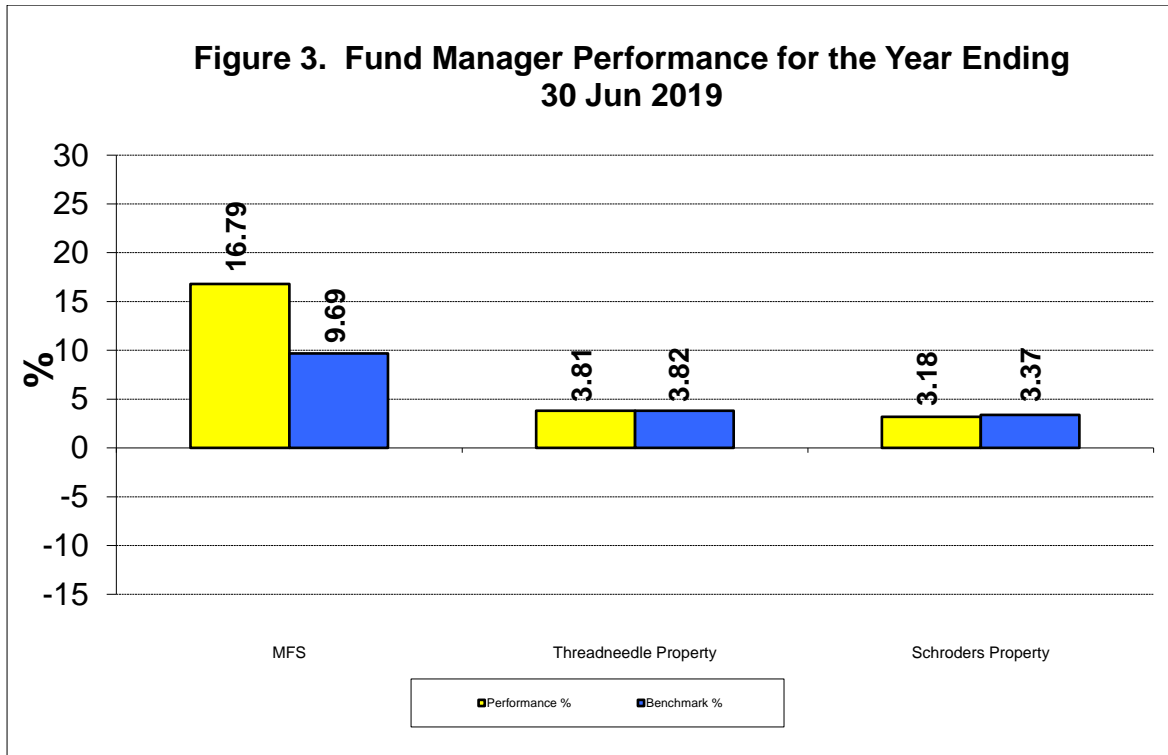
**Table 3: Performance by Fund Manager**

Manager	Benchmark Measure	Q/E Jun 2019	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	8.39	6.09	<b>2.30</b>
BCPP Uk Equity	FTSE All-Share	4.14	3.27	<b>0.87</b>
Legal and General (Global Equities)	LGIM Benchmark	5.54	5.59	<b>-0.05</b>
Legal and General (Fixed Interest)	LGIM Benchmark	1.89	1.86	<b>0.03</b>
Threadneedle Property	Customised Benchmark	0.49	0.65	<b>-0.16</b>
Schroders Property	Customised Benchmark	0.47	0.59	<b>-0.12</b>
JP Morgan Strategic Bond	Customised Benchmark	1.34	0.18	<b>1.16</b>
<b>Total</b>	<b>WCC Total Fund Benchmark</b>	<b>4.58</b>	<b>3.62</b>	<b>0.96</b>

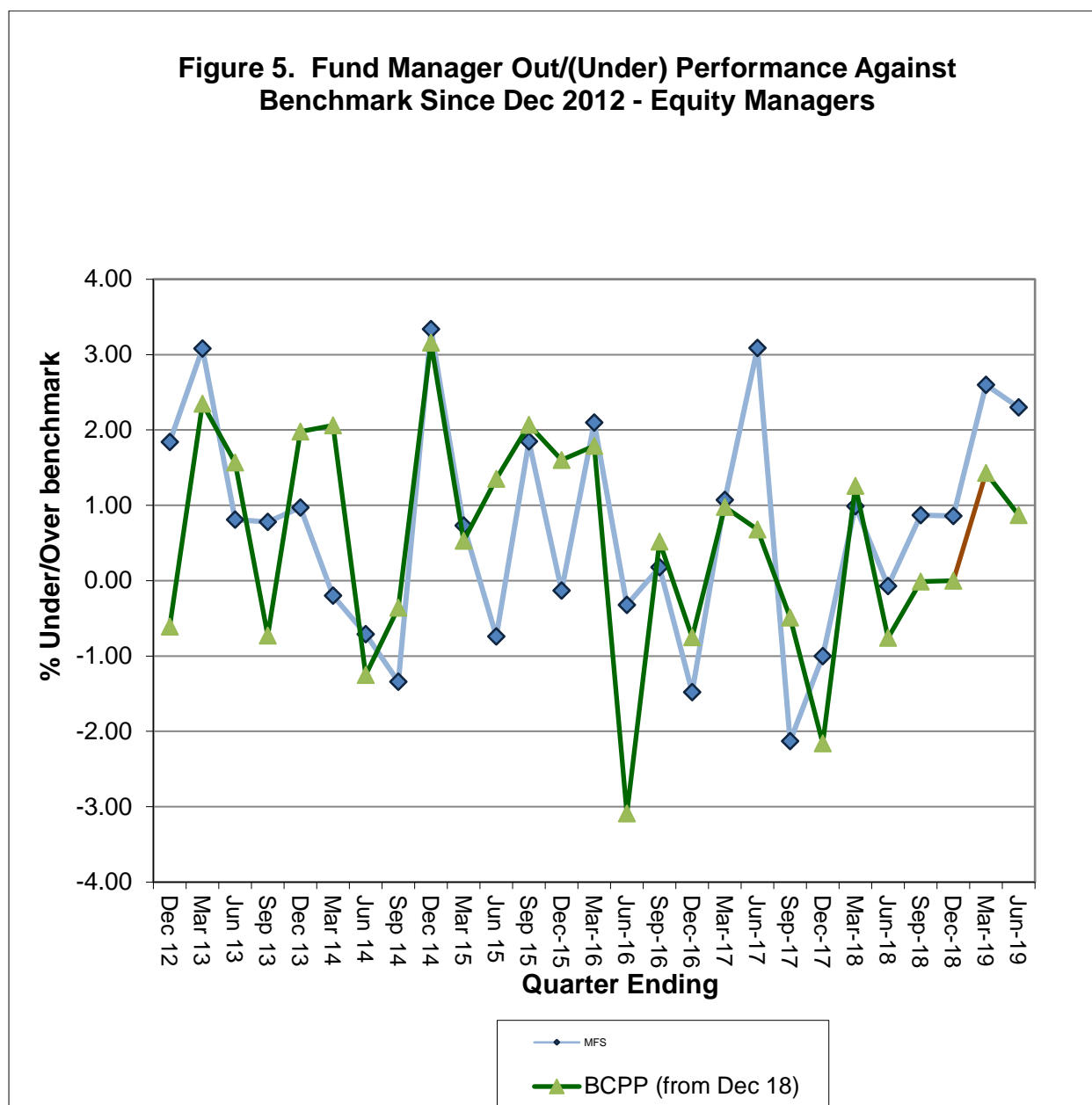
\*BCPP UK Equity Fund replaces Threadneedle UK Equity.

- **Equities** – (BCPP, MFS, LG) Overall equities have performed above benchmark. Global equity markets have continued to advance, mainly helped by more dovish comments from the US Federal Reserve and the European Central Bank, despite geopolitical risks including continued uncertainty around the US-China trade war and heightened risk of a no-deal Brexit
- Both Active Equities Managers (MFS/BCPP) have beaten the benchmark by 3.17% against the quarter. This compares to passive Manager (LG) under achieving its target by -.02%
- **Property** – (Schroders, Threadneedle) – Slight under-performance as Brexit continues to affect UK performance and until there is greater clarity this is forecast to continue affecting UK performance.
- **Absolute Return Bonds** – (JP Morgan) – The fund seeks to maximise returns by investing primarily in a global portfolio of fixed and floating Debt Securities. Corporate high yield was the largest contributor to performance, as dovish central banks and tentative progress on trade helped spreads to tighten by more than 50 basis points. Corporate investment grade also contributed, with high grade funds experiencing significant inflows given the general move up in quality and the grab for yield that has resulted from negative rates in Europe.

3.2 Annualised return for the fund managers to 30 June 2019 is summarised in Figure 3. The three-year annualised return is summarised in Figure 4. (BCPP long-term performance will be included as it becomes available).



3.3 Equity Managers performance against their benchmarks are summarised in Figures 5.



#### 4. Actively Managed Equities Fund Manager Performance

4.1 Some equity funds are actively managed with the intention of paying an additional fee in order to achieve a return better than a passive fund would achieve. This section sets out those funds, detailing the additional targets set and the additional fees incurred.

4.2 Targets are set over rolling 3 year periods therefore it is important to consider short term performance in this context and that the UK Alpha Equity Fund data in

the table below only represents 7 months (November 2018 to June 19) of activity. The performances of managers against their targets were:

	Inception to June 19	3 yrs
Fund	UK Alpha Equity Fund	MFS
Benchmark Source	FTSE All Share	MSCI All Country World Index
Target	+2% over rolling 3 year period	+1.5% over rolling 3 year period
Benchmark	11.32%	13.47%
Target	13.32% (net of fees**)	14.97% (gross of fees**)
Performance	13.36% (gross of fees)	15.22% (gross of fees)
Over/(Under) Target	0.04%	0.25%
Fees paid (in % terms)	32 bps	48 bps first (GBP £25m) 44 bps next (GBP £25m) 40 bps excess of (GBP £50m)

- \* BCPP UK Equity Fund replaces Threadneedle UK Equity effective November 2018.
- \*\*net of fees refers to where the return quoted is after taking off fees paid to the fund manager. Gross of fees refers to where the return quoted is before taking off the fees paid to fund managers.

## Background papers

None.

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The report was not circulated to members prior to publication.