

Pension Fund Panel

12 February 2019

Pension Fund Valuation and Performance at 31 December 2018

Report by Head of Investments, Risk & Commercial Finance - Resources

Purpose

To review the performance of the Pension Fund investments.

This report considers the investment performance of the Fund and each manager for the quarter to the end of December 2018, performance in the last twelve months and annualised rolling three year performance against the benchmark.

Recommendations

To **Resolve** that the Panel notes the performance of the total Fund investments and individual fund managers.

Key Points

- A. The value of the Fund's investments at 31 December 2018 was £817.6 million. This is a decrease of £66.3 million (7.5%) from the total value at the end of September 2018.
- B. Supplementary reports from each of the fund managers, outlining their investment performance during the quarter to 31 December 2018 are appended to this report.

Context

1. The manager structure at 31 December 2018 with benchmarks and performance targets is detailed below.

Manager	% share of Total Fund	Benchmark index	Annual Performance target above benchmark
Fidelity	24.5%	MSCI All Countries World Index	+ 1.5 – 2.0% p.a.
Columbia Threadneedle	20.7%	MSCI All Countries World Index	+ 2.5 - 3.0% p.a.
Schroders	14.1%	MSCI All Countries World Index	+ 3.0% p.a.
Janus Henderson - All Stocks Credit	7.8%	iBoxx All Stocks Non-Gilts index	+ 0.5% p.a.
Janus Henderson - Total Returns Bond	4.5%	No benchmark	+ 6.0% p.a.
UBS	5.6%	IPD UK All Balanced Funds Median index	Outperform index

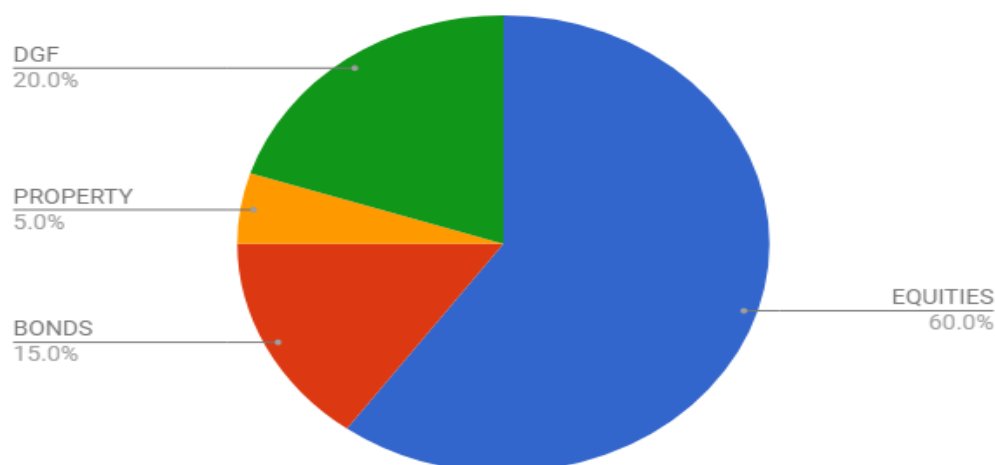
London CIV - Pyrford (*DGF)	9.6%	RPI	+ 5.0% p.a.
Aberdeen Standard	4.2%	6 month LIBOR	+ 5.0 % p.a.
London CIV - Baillie Gifford (DGF)	4.1%	UK Base Rate + 3.5% p.a.	Outperform index
London CIV - Ruffer (DGF)	4.1%	No benchmark	N/A

NB: 0.8% was held as cash internally. *DGF - DIVERSIFIED GROWTH FUND

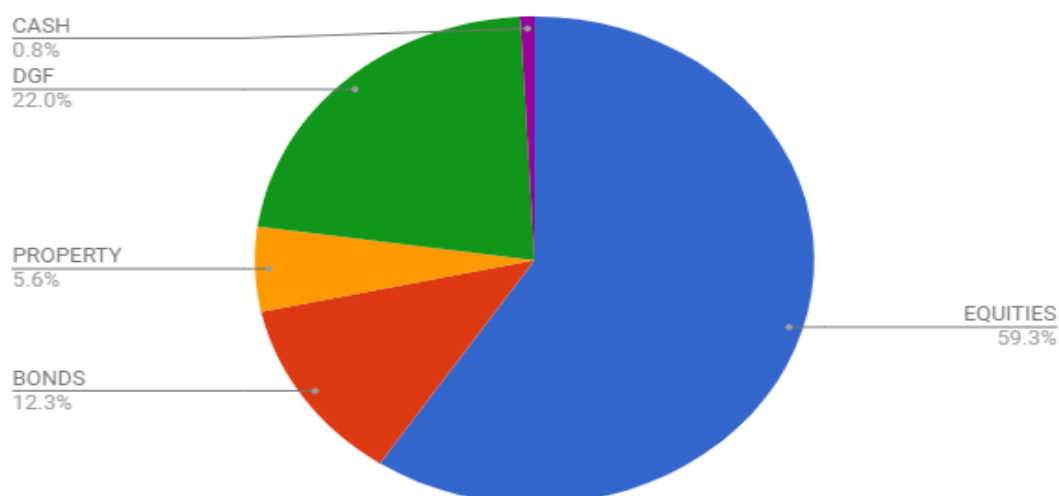
Current Composition of the Fund

2. The strategic asset allocation benchmark for the Fund (as outlined in the current Investment Strategy Statement) and the actual split as at 31 December is given below:

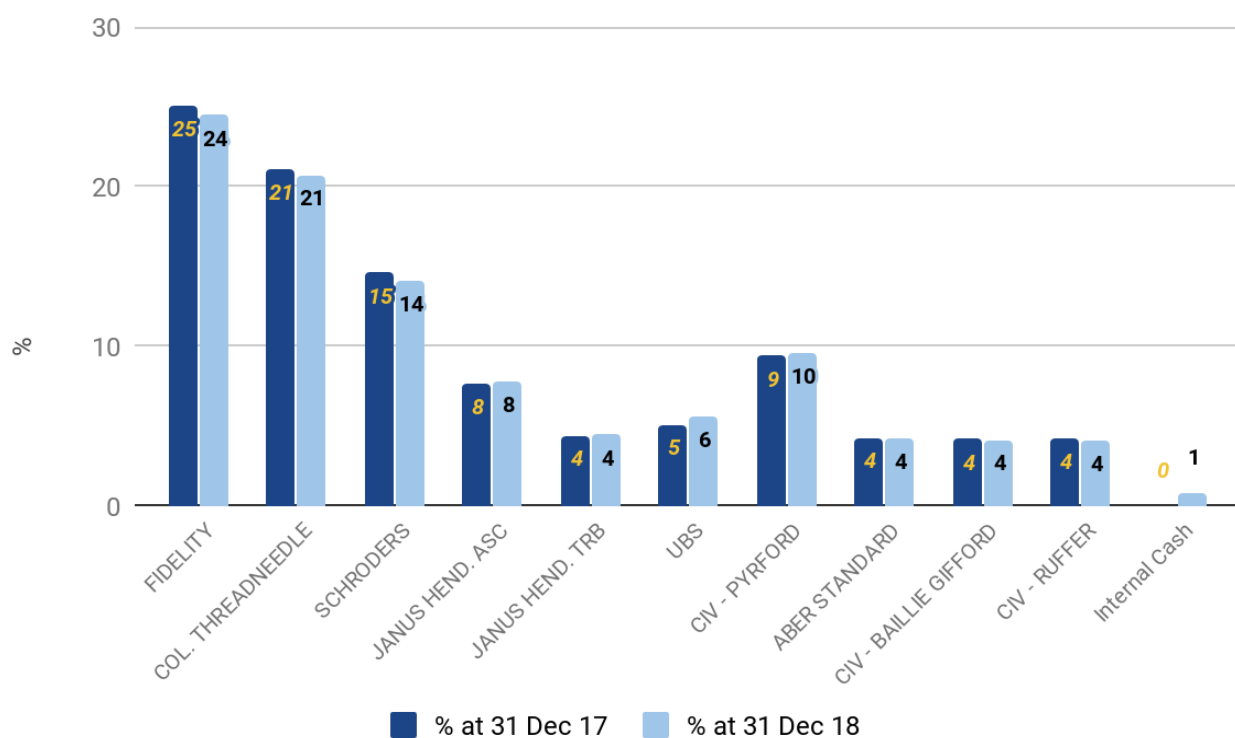
STRATEGIC ASSET ALLOCATION BENCHMARK



ASSET ALLOCATION as at 31 DECEMBER 2018



3. The composition of the Fund, by manager as at 31 December 2018 and a comparison with December 2017 is shown below.



Valuations and Performance to 31 December 2018

4. The managers' investment reports for the quarter ending 31 December 2018 are appended to this report.

5. The market value of the Fund investments at 31 December 2018 was £817.6 million. This is a decrease of £66.3 million (7.5%) from the total value at the end of September 2018.

6. Overview of Markets in Q4 2018

- Global equities posted sharp declines in Q4 on persistent concerns over global trade and slowing economic growth. Government bond yields generally fell (i.e. prices rose), reflecting the broad uncertainty.
- US equities declined, with especially steep falls in December. The Federal Reserve raised rates, as expected. Warnings from several high profile IT firms fanned fears that earnings growth may slow.
- European equities also declined, with trade tariffs, slower Chinese growth and Brexit combining to form a difficult environment. Data continued to point to slowing momentum in the eurozone economy.
- The FTSE All-Share fell over the period, with global developments setting the tone for the market. Sterling fell in response to political noise around Brexit, with worries of a 'no deal' departure from the EU coming to the fore again.
- Japanese equities lost value, with weakness coinciding with periods of yen strength as the currency continued to be viewed as a "safe-haven" at times of increased uncertainty.
- Emerging markets equities lost value with the familiar array of global trade and growth concerns weighing on returns. Brazilian equities and the real rallied ahead of the market-friendly election outcome; confirmed in late October.

- Bond yields were lower (i.e. prices rose) over the quarter, broadly reflecting increased risk aversion and volatility amid continued macro uncertainty relating to trade tensions, Brexit and politics in Italy.

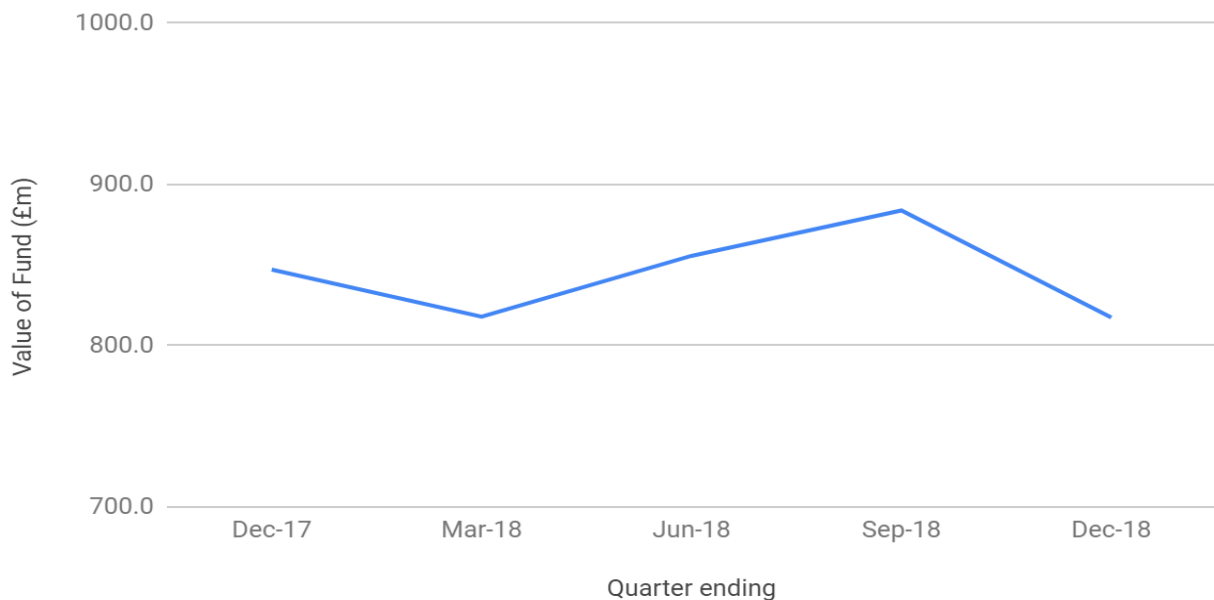
7. The table below highlights the movement in the equity benchmark index (MSCI All Countries World Index) on a quarterly basis.

Quarter	Equity Benchmark Index %
2018 Q1	- 4.5
2018 Q2	+ 6.8
2018 Q3	+ 5.6
2018 Q4	-10.7

Annual Performance for year to 31 December 2018

8. The quarterly valuations of the total Pension Fund over the last year are shown in the following chart:

Value of Fund (£m)



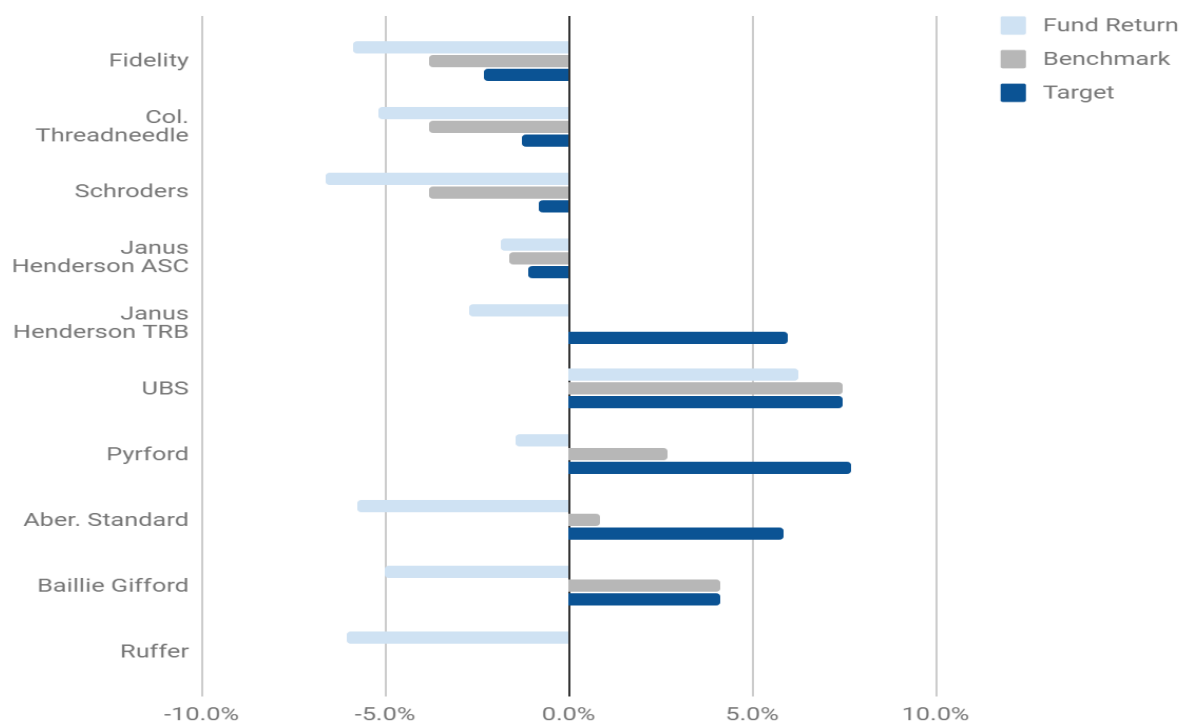
9. For consistency, each manager has been asked to provide performance figures on a net of fees basis.
10. As previously reported to the Panel, UBS who manage the property portfolio, are unable to produce net of fee returns at the total portfolio level due to a number of issues relating to a decision by the Panel in 2009 to retain holdings in other property portfolios, when the Fund's former "balanced mandate" with UBS was replaced by specialist Equity and Bond mandates.

11. However, officers will shortly liaise with UBS on a solution to deliver going forward, net of fees performance calculations, using quarterly data sourced from UBS and the other external managers.
12. Apart from UBS (gross), the net performance of each of the managers in the year to 31 December 2018 compared with their respective benchmark index and their outperformance target is shown in the table below:

Manager	Value	Value	NET Fund return for year to Dec 18	Benchmark return for year to Dec-18	Out-performance Target return to Dec 18	Perf. relative to Benchmark	Perf. relative to target
	31 Dec 17 (£m)	31 Dec 18 (£m)					
FIDELITY	212.39	200.02	-5.9%	-3.8%	-2.3%	-2.1%	-3.6%
COL. THREADNEEDLE	178.82	169.57	-5.2%	-3.8%	-1.3%	-1.4%	-3.9%
SCHRODERS	123.57	115.43	-6.6%	-3.8%	-0.8%	-2.8%	-5.8%
HENDERSON ASC	64.91	63.91	-1.8%	-1.6%	-1.1%	-0.2%	-0.7%
HENDERSON TRB	37.45	36.45	-2.7%	n/a	6.0%	n/a	-8.7%
UBS	43.18	45.88	*6.3%	7.5%	7.5%	-1.2%	-1.2%
CIV - PYRFORD	79.40	78.24	-1.5%	2.7%	7.7%	-4.2%	-9.2%
Aberdeen Standard	36.31	34.23	-5.8%	0.8%	5.8%	-6.6%	-11.6%
CIV - BAILLIE GIFFORD	35.45	33.67	-5.0%	4.1%	4.1%	-9.1%	-9.1%
CIV - RUFFER	35.70	33.54	-6.0%	n/a	n/a	n/a	n/a
Internal Cash	0.00	6.63			-	-	-
Total	847.19	817.57					

*gross

13. In what was a disappointing year, only the UBS property portfolio managed to record a positive return.
14. All of the fund managers failed to meet both their benchmark returns and outperformance targets.
15. The Janus Henderson All Stocks Credit Fund (ASC) was only 0.2% below its benchmark return, and 0.7% below its target return.
16. The Janus Henderson Total Return Bond Fund (TRB) fell short of the 6% pa target return by -8.7%. The TRB is intended to provide some diversification by protecting against falls in bond asset prices.
17. The performance of all the managers for the year to 31 December 2018 is shown graphically below.



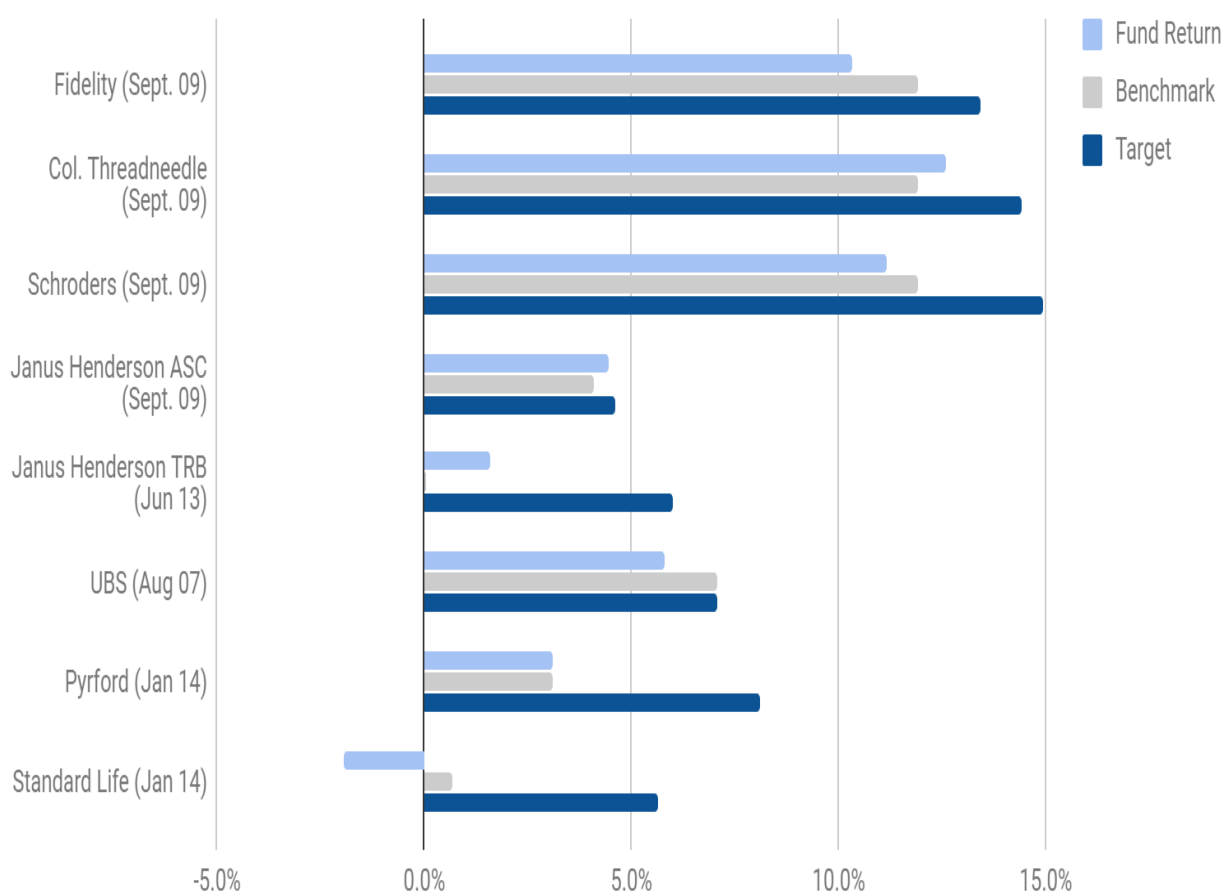
Managers' Performance on a rolling 3 year period to 31 December 2018

18. The targets for each of the fund managers are based upon outperforming the benchmark index over a rolling three year period. Apart from UBS (see paragraph 10), the following table shows the net three year annualised performance of the fund managers (whose mandates commenced before January 2016).

Manager	Inception Date	NET 3 year Fund Return to Dec 18	3 year Benchmark Return to Dec 18	3 year Out-performance Target Return to Dec 18	3 year Performance relative to Benchmark	3 year Performance relative to target
FIDELITY	Sep-09	10.3%	11.9%	13.4%	-1.6%	-3.1%
COL. THREADNEEDLE	Sep-09	12.6%	11.9%	14.4%	0.7%	-1.8%
SCHRODERS	Sep-09	11.2%	11.9%	14.9%	-0.8%	-3.8%
JANUS HENDERSON ASC	Sep-09	4.4%	4.1%	4.6%	0.4%	-0.1%
JANUS HENDERSON TRB	Jun-13	1.6%	0.1%	6.0%	n/a	-4.4%
UBS	Aug-07	*5.8%	7.1%	7.1%	-1.3%	-1.3%
LONDON CIV - PYRFORD DGF	Jan-14	3.1%	3.1%	8.1%	0.0%	-5.0%
ABER. STANDARD	Jan-14	-2.0%	0.7%	5.7%	-2.6%	-7.6%

*gross

19. The three equity fund managers provided the highest returns over the rolling three year period. The Aberdeen Standard Diversified Growth Fund was the only fund to record a negative return.
20. Columbia Threadneedle and Janus Henderson ASC were the only fund managers to exceed their benchmark return.
21. Fidelity, Schroders, UBS and Aberdeen Standard all failed to meet both their benchmark return and outperformance targets.
22. The performance of the managers for the three year period to the end of December 2018 is shown graphically below. The Baillie Gifford and Ruffer funds have not been included, as these investments commenced October 2017.



Residential Property Investment

23. At the meeting held on 22 February 2018, the Panel resolved that an investment of £25m be made into the M&G UK Residential Property Fund, to be funded from the Global Equities mandates. The Panel was made aware that it is likely to take 2 years for an agreed investment to be fully called by the Fund.
24. In July 2018, M&G confirmed acceptance of the Fund's Capital Commitment to subscribe for Units of the UK Residential Property Fund. However, no notice has yet been issued for a subscription.

Recent developments

25. In January, Janus Henderson advised that Ryan Myerberg, portfolio manager in the Global Bonds team and co-Portfolio Manager on the Janus Henderson Total Return Bond Fund, was leaving the firm to pursue other opportunities.
26. As a result, Chris Diaz, Co-Head of Global Bonds, has joined Andy Mulliner as co-Portfolio Manager on the Janus Henderson Total Return Bond Fund.
27. Janus Henderson confirm that there will be no changes to the investment process or philosophy of the Total Return Bond Fund due to these changes. Chris Diaz and Nick Maroutsos continue as co-Heads of Global Bonds.

Background papers – None other than those referred to in this report

Author of report - Lyndsey Gamble, Head of Investments, Risk & Commercial Finance - Resources

Email: lyndsey.gamble@sutton.gov.uk Tel: 020 8770 5358

ANNEX	QUARTERLY INVESTMENT REPORTS from
1	Fidelity
2	Schroders
3	Columbia Threadneedle
4	Janus Henderson ASC
5	Janus Henderson TRB
6	UBS Investment report
7	Aberdeen Standard DGF
8	LONDON CIV - for funds invested in Pyrford DGF, Ruffer DGF and Baillie Gifford DGF