

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

TEESSIDE PENSION BOARD REPORT

24 JULY 2017

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

INVESTMENT PERFORMANCE REPORT - 2016

1 PURPOSE OF THE REPORT

- 1.1 To report on the performance of the Fund.

2 RECOMMENDATION

- 2.1 That Members note the report and pass comment where considered relevant or appropriate.

3 FINANCIAL IMPLICATIONS

- 3.1 The performance of the Fund is one of the factors which the Fund Actuary takes into account when setting the Employer's contribution rate.

4 BACKGROUND

- 4.1 The Fund's investment performance is now measured by Portfolio Evaluation Limited (PEL), the leading provider of performance services to public and private sector pension schemes. These results are also reported to the Investment Panel in accordance with the requirements of the Management Agreement.
- 4.2 Monitoring performance is one way in which Members can assess how well the Fund is being managed. Performance is measured against a tailor-made mix of investments which should produce returns over the medium and long term to meet the Fund's liabilities. From this asset mix, a benchmark can be created and the actual performance of the Fund measured against this customised benchmark. The customised benchmark is reassessed every three years as part of the Asset/Liability Study.
- 4.3 PEL are specialists in performance risk and return measurement, with a range of pension funds, charities, insurance companies and investment consultants located in the United Kingdom and Europe. PEL replace the WM Company who served this market for years, but withdrew early last year.

5. HEAD OF INVESTMENTS REPORT

- 5.1 2016 was a very positive year for the Fund and most investors in general. Growth asset classes (Equities, Property and Alternatives) produced positive returns, particularly UK Equities, who saw strong gains after the outcomes of the UK's EU Referendum and US Election, and Overseas Equities who also benefitted from a weaker Pound. In addition, Bond performance was strong.
- 5.2 Strong gains were also seen in Property and Alternative asset classes. The Fund continues to invest in these asset classes when opportunities arise.
- 5.3 Against this background of strong, rising markets, the Teesside Pension Fund built up cash as profits were taken out of Equities and Bonds were sold down to near zero. In the year £189.1 million (net) was divested. Cash increased by approx. £250 million to £400 million. The figures below show the activity detail for the year:

	Purchases	Sales	Net
	----- (£ millions) -----		
UK Equities	91.9	184.0	92.1
Overseas Equities	153.6	196.2	42.6
Alternatives	9.2	13.2	4.0
Property	40.6	4.3	36.3
UK Bonds	1.5	48.9	47.4
Overseas Bonds	0	21.8	21.8
UK Index-linked	0	17.6	17.6
TOTAL	296.9	486.0	189.1

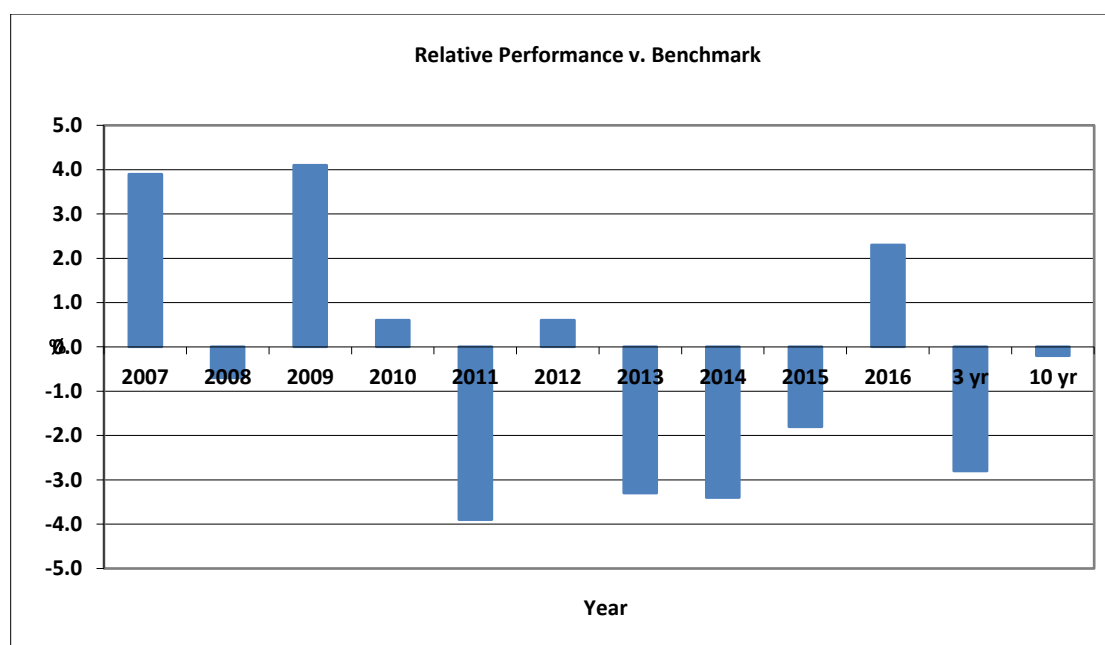
- 5.4 Over the past few years, the policy of being overweight in Equities negatively affected the Fund, however, as will be seen in Section 6 below, this assisted the Fund outperforming its customised benchmark and other Local Authority Funds. The Fund has a mix of investments which differs vastly from the average fund. Members are aware of this difference in asset allocation and have accepted that such a mix carries the risk of greater volatility and that the Fund's performance can differ vastly from other funds.
- 5.5 One of the reasons performance measurement is important is that it enables the Investment Panel to assess the effectiveness of the fund management arrangements. The Fund has a regime of undertaking regular reviews of Fund Management Arrangements. These are carried out every 5 years by the Investment Advisors, in conjunction with the Head of Investments, with a report for approval to the Investment Panel. The last review was approved in March 2015.

6. PERFORMANCE

- 6.1 The total Fund return for calendar year 2016 was 20.8%, against a benchmark return of 18.5%. This is the return for the calendar year, as is standard practice for this report, not the financial year. The financial year's performance result are published in the Annual Report and Accounts.
- 6.2 The most important measure of pension fund performance is over the long term. Pension Fund investment is a long-term business. The way the Fund is managed looks to take the long-term view while being open for opportunities to exploit short-term market opportunities.
- 6.3 The Fund's performance over 3, 5 and 10 years is positive, 8.6% p.a., 9.7% p.a., and 6.9% p.a. respectively. Over 3 years the Fund underperformed its benchmark by 1.2% p.a., over 5 years it underperformed by 1.3% and over the longer period of 10 years the Fund has also underperformed its benchmark by 0.2%.
- 6.4 The table and chart below show the Fund's returns over the last 10 years compared to the benchmark returns.

Relative Performance v. Benchmark:

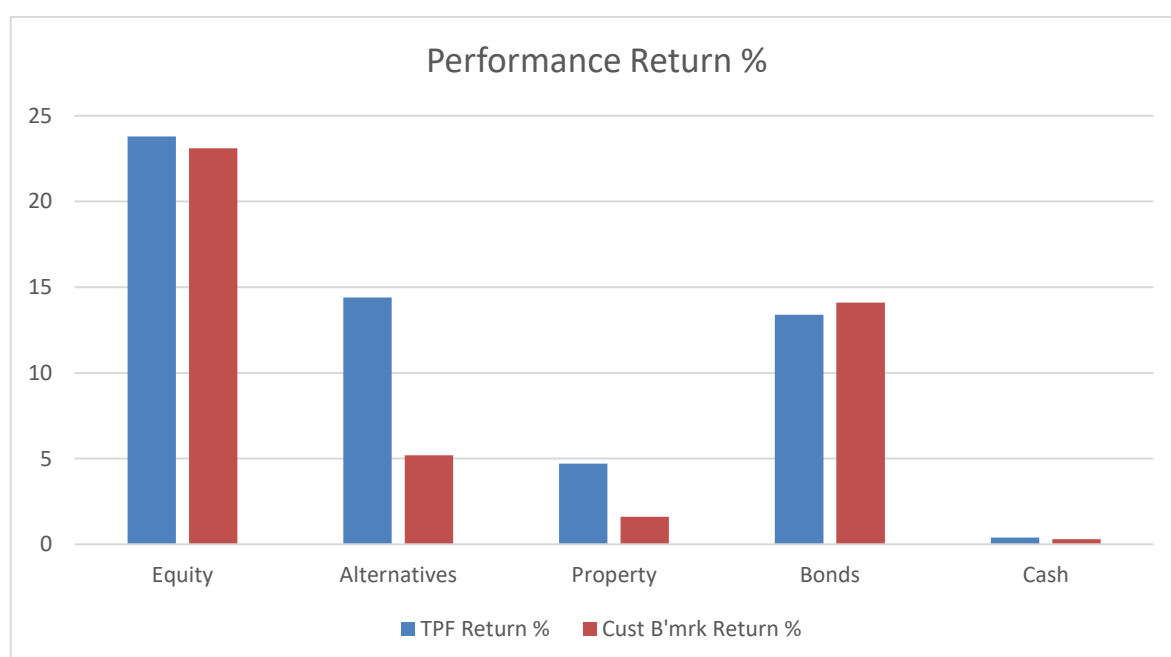
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	3 yr	10 yr
Fund	10.3	-17.3	21.8	14.7	-4.2	10.2	12.5	3.8	2.2	20.8	8.6	6.9
B'mark	6.2	-16.7	16.9	14.0	-0.3	9.6	16.4	7.4	4.1	18.5	9.8	7.0
Rel Pfmce	3.9	-0.7	4.1	0.6	-3.9	0.6	-3.3	-3.4	-1.8	2.3	-1.2	-0.2



- 6.5 The table below emphasises the extent of the difference between the Fund's actual asset allocation and the customised benchmark, as at December 2016:

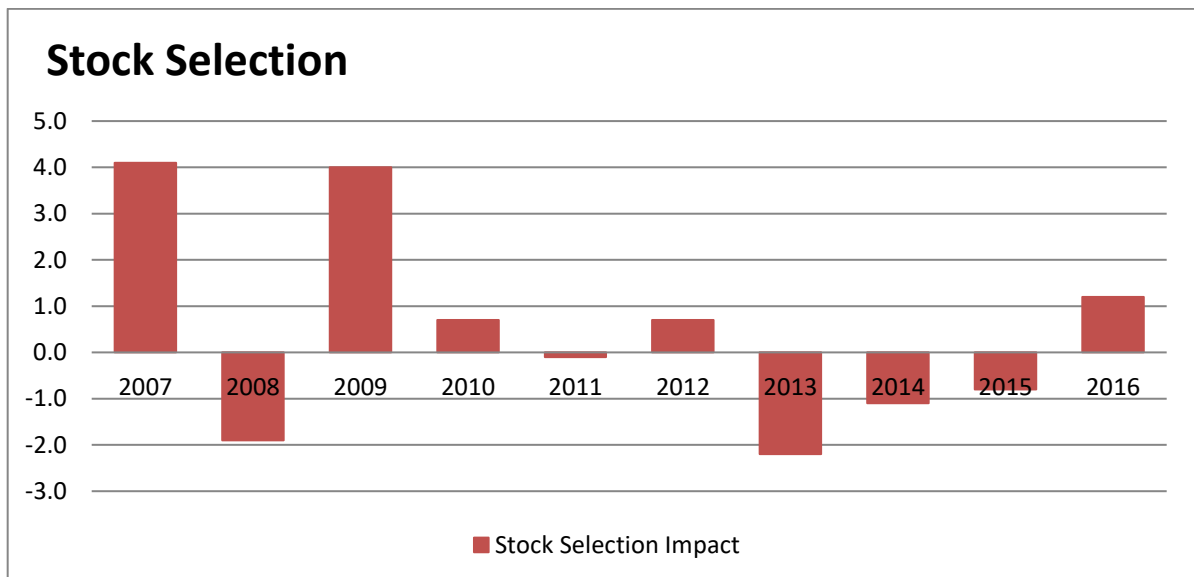
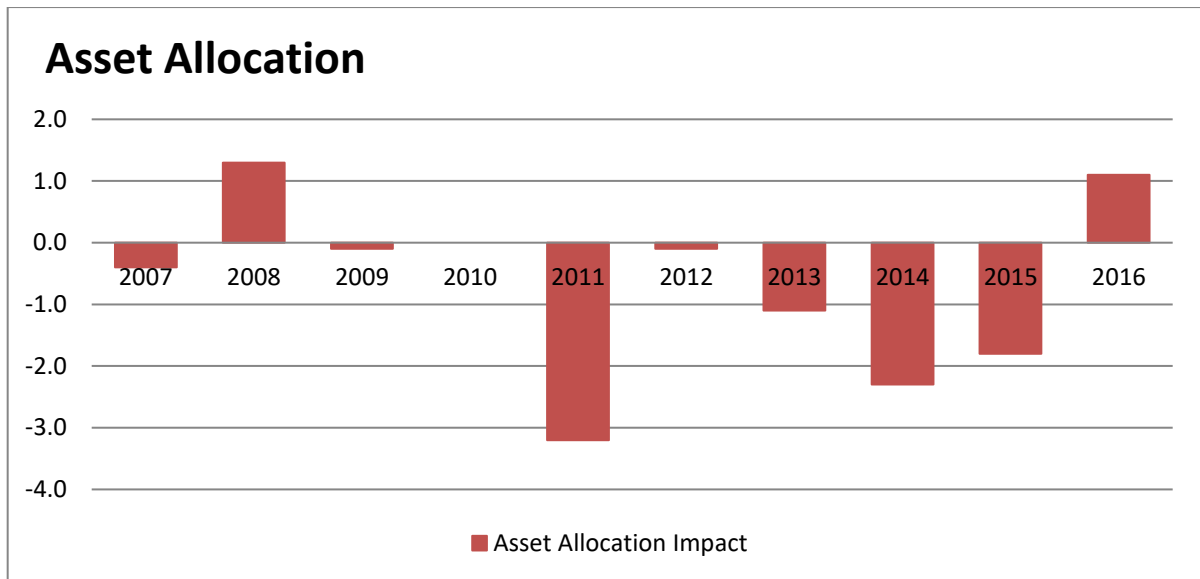
	Asset Allocation		
	Customised Benchmark %	Actual TPF %	Difference %
Equities	70	80.3	+10.3
Alternatives	5	1.6	-3.4
Property	10	6.9	-3.1
Bonds	13	0.2	-12.8
Cash	2	11.0	+9.0

6.6 For 2016, the difference in performance returns between the customised benchmark (18.5%) and the Teesside Fund (20.8%) was 2.3%. Explaining how this difference occurred, the graph below shows performance for each asset class in 2015:



6.7 The above graph also shows the difference in returns between the customised benchmark and Teesside Fund. Both asset allocation and stock selection decisions have impacted performance positively with outperformance in Equities, where the Fund is very overweight, Property and Alternatives. This is better illustrated in the following chart and graphs which shows the impact on relative performance of both asset allocation and stock selection when comparing the Fund to the customised benchmark.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	3yrs	10yrs
Fund	10.3	-17.3	21.8	14.7	-4.2	10.2	12.5	3.8	2.2	20.8	8.6	6.9
B'mark	6.2	-16.7	16.9	14.0	-0.3	9.6	16.4	7.4	4.1	18.5	9.8	7.0
Rel Pfmce	3.9	-0.7	4.1	0.6	-3.9	0.6	-3.3	-3.4	-1.8	+2.3	-1.2	-0.2
Asset All.	-0.4	1.3	-0.1	0.0	-3.2	-0.1	-1.1	-2.3	-1.0	+1.1	n/a	n/a
Stock Sel.	4.1	-1.9	4.0	0.7	-0.1	0.7	-2.2	-1.1	-0.8	+1.2	n/a	n/a



- 6.8 With so much of the Fund invested in Equities (80%), it is always this asset class that determines how well the whole Fund performs. There were some regional disparities in performance during 2016. Strong performance was seen from UK and European portfolios, however, negative excess returns were seen from the US, Far East and Japanese portfolios.
- 6.7 Bonds underperformed their underlying benchmark indices, however given the amount now invested in this asset class the impact was minimal. Property and Alternatives strongly outperformed their benchmark indices, assisting the overall Fund's outperformance when compared to the customised benchmark.

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