

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 6

## INVESTMENT PANEL REPORT

27 SEPTEMBER 2017

STRATEGIC DIRECTOR FINANCE, GOVERNANCE AND SUPPORT – JAMES BROMILEY

### FUND MANAGER'S REPORT

#### 1. PURPOSE OF THE REPORT

- 1.1 To inform Members how the Investment Advisors' recommendations are being implemented.
- 1.2 To provide information with regard to stock selection strategies, including a detailed report on transactions undertaken.

#### 2. RECOMMENDATION

- 2.1 That Members note the report.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 Decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

#### 4. IMPLEMENTATION OF INVESTMENT ADVISOR'S ADVICE FOR THE PERIOD APRIL – JUNE 2017.

- 4.1 Both advisors continued to favour growth assets over protection assets, bonds do not currently meet the Fund's actuarial requirements and therefore should be avoided at these levels. The bond portfolio continues to be wound down, with only nominal exposure to bonds remaining.

Both advisors were wary of allowing cash to build up above the short term asset allocation range. The level of cash remains at 12% as in the prior period

Both advisors continue to favourably consider further investment in direct property. Work was ongoing within the period to make further investments in this area with investment activity in this current quarter.

There was comfort with the short term allocation strategy set for equity markets, though both advisors expressed caution over Europe into elections. The Fund continued to take profits on equity market strength.

#### 4.2 Summary of Equity Returns for the Fund in the quarter to 30 June 2017:

<b>Asset Class</b>	<b>Percentage Return</b>
UK Equity (FTSE All Share)	1.1%
US Equity (S&P 500)	0.0%
Japanese Equity (Topix 500)	1.8%
Pacific Equity (MSCI Asia X Japan)	0.7%
European Equity (Stoxx 600)	4.6%

Source Portfolio Evaluation Ltd. (Sterling Return)

### 5. TRANSACTION REPORT

5.1 It is a requirement that all transactions undertaken are reported to the Investment Panel. Appendix A details transactions from the period 1 April 2017 to 30 June 2017.

5.2 There were net sales of approximately £17m in the period, this compares to net sales of £35m in the previous reporting period. Cash balances increased from £444m to £484m.

Our observations by performance driver are as follows:

#### (i) Bonds

UK inflation has stayed above target, causing all but the short-end of the yield curve to rise. The short-end fell due to the perceived lack of base rate movement in the near future. US rates are more bullish in the short to medium term, as they can see the Federal Reserve moving rates again soon. Bonds continue to offer very low yields, the US offers 2.8% for a 30 year bond. The UK and Eurozone offer rates well below current inflation, for all areas of the curve.

The portfolio continues to be wound down, with only nominal exposure to bonds remaining.

#### (ii) Equity Markets

Equity markets continued to test new highs in the period, in particular the European market. The French electoral win by Emmanuel Macron was seen as removing the risk of near term market shocks in France and Europe in general.

The Fund continued to gradually take profits on this strength, given our high exposure to equity risk assets.

#### (iii) Currency effects

The Euro was strong in the period, in line with European equity markets; the French election result aided in calming the markets and removing market risks in Europe.

The recovery of sterling, compared to the other major world currencies, continued despite the result of the UK General Election in June that led to a hung parliament and growing concerns over the path of Brexit negotiations following the result.

## 6. FUND VALUATION

- 6.1 The Fund Valuation details all the investments of the Fund as at 30<sup>th</sup> June 2017, and is prepared by the Fund's custodian, BNP. The total value of all investments, including cash, is **£3,889 million**. The detailed valuation is available on the Fund's website [www.teespen.org.uk](http://www.teespen.org.uk). This compares with the last reported valuation, as at 31st March 2017 of **£3,859 million**.
- 6.2 An analysis of the summary valuation shows the Fund's percentage weightings in the various asset classes, compared with the Fund's customised benchmark and the advisors short term asset allocation range.

## Asset Allocation Summary

ASSET CLASS	FUND	INVESTMENT ADVISORS' SHORT TERM ASSET ALLOCATION RANGE	CUSTOMISED BENCHMARK	AVERAGE*
<b>PROTECTION ASSETS</b>				
<b>BONDS (residual)</b>	<b>0</b>	<b>0 – 2</b>	<b>12</b>	<b>16</b>
<b>CASH</b>	<b>12</b>	<b>5 – 15</b>	<b>3</b>	<b>3</b>
<b>GROWTH ASSETS</b>				
<b>UK EQUITY</b>	<b>32</b>	<b>29 – 35</b>	<b>30</b>	<b>20</b>
<b>OVERSEAS EQUITY</b>	<b>47</b>	<b>45 – 51</b>	<b>40</b>	<b>43</b>
<b>PROPERTY</b>	<b>7</b>	<b>7 – 9</b>	<b>10</b>	<b>9</b>
<b>ALTERNATIVES</b>	<b>2</b>	<b>1.5 – 5</b>	<b>5</b>	<b>9</b>
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>

*\*Average Local Authority Fund as at the last available date data is available (31 March 2016)*

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