

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 4

## INVESTMENT PANEL REPORT

7 MARCH 2018

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 Advice 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 and pass any comments.

#### 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 ADVICE FOR THE PERIOD OCTOBER - DECEMBER 2017.

- 4.1 Advice was to continue 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 remaining bonds, in the portfolio have been sold this quarter.

*At this time the Fund holds no bonds.*

It was felt that at the current level of 12% we should be mindful of allowing cash to build up any further, cash should not rise too much further in the short term to above the maximum short term level set at the customised benchmark for protection assets (15%).

*Cash were at 11% at the end of December.*

Investment in direct property to continue on the same basis as previously presented to the Panel; on an opportunistic basis where the property has a good covenant, yield and lease terms.

*A further investment in direct property was made in the quarter – £24m purchase.*

Investment in Alternatives, such as general and local infrastructure and private equity, offer the Fund diversification from equities and bonds. They come with additional risks of being

illiquid, traditionally they have costly management fees and investment in the type of investment can be a slow process. However, the Fund is considerably underweight its customised benchmark and, providing suitable investment opportunities are available, the Fund should look to increase its allocation to this asset class up to the customised benchmark level.

*Commitments for two funds were made in the quarter (£15 million and £10 million), with drawdowns of £3.7 million during the quarter.*

There was comfort with the short term allocation strategy set for equity markets. The current political, economic and market conditions are similar to previous advice provided at meetings and do not suggest any need to make any major strategy changes.

#### 4.2 Summary of Equity Returns in this Period

Asset Class	Percentage Return
UK Equity (FTSE All Share)	5.0%
US Equity (S&P 500)	5.6%
Japanese Equity (Topix 500)	7.6%
Pacific Equity (MSCI Asia X Japan)	7.3%
European Equity (Stoxx 600)	0.2%

Source Bloomberg TRA Analysis 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<sup>st</sup> September 2017 to 31<sup>st</sup> December 2017.
- 5.2 There were net purchases of approximately £26m in the period, this compares to net purchases of £43m in the previous reporting period. Cash balances increased to £462m from £448m.

Our observations by performance driver are as follows:

(i) Bonds

The MPC finally doubled the Bank of England base rate in November, from its historic low of 0.25% to 0.50%. UK inflation has stayed above target. Bonds rose in value, across the full spectrum, from 1 year and longer, causing bonds under 4 years to yield less than the base rate.

US rates are more bullish in the short to medium term, as traders and market makers can see the Federal Reserve moving rates again soon. Bonds continue to offer very low yields, the US offers 2.75% for a 30 year bond.

The UK and Eurozone offer rates well below current inflation, for all areas of the curve.

(ii) Equity Markets

Equity markets continued to reach new highs in the period regardless of political, economic, & environmental issues.

In UK politics Theresa May's leadership once again came under pressure due to political infighting and the resignation of Michael Fallon.

In Germany, coalition talks broke down in November – the Christian Democratic Union Party led by Angela Merkel has now turned back to their former coalition partners the Social Democrats in an attempt to form a Government.

Austria's far-right nationalist Freedom Party scored their best result in a national election for 2 decades. They joined with the Austrian's People Party to form a coalition Government, making Austria the only Western European country with a far-right presence in Government.

The ECB announced in October that they are to reduce the amount of assets it buys each month starting in January 2018 from €60bn to €30bn for the first 9 months of the year. The Central Bank's own forecasts do not see consumer price growth returning to the goal of just under 2% until at least late 2019.

In the US the Republicans finally achieved their first legislative win when they signed a new Tax Plan into law.

Brent Oil reached the highest level since July 2015 due to political upheaval in Saudi Arabia with arrests of ministers and members of the Royal Family in an attempt to fight corruption.

The Fund continued to gradually take profits on a stock specific basis, given our extreme exposures to equity risk assets.

(iii) Currency effects

Sterling ended the quarter at pretty much the same level that it began against the dollar. The Euro/dollar level fluctuated through the quarter but overall the Euro upward trend continued.

## 6. FUND VALUATION

- 6.1 The Fund Valuation details all the investments of the Fund as at 31st December 2017, and is prepared by the Fund's custodian, BNP. The total value of all investments, including cash, is **£4,074 million**. The detailed valuation is available on the Fund's website Teespen.org.uk This compares with the last reported valuation, as at 30<sup>th</sup> September 2017 of **£3,923 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

<b>ASSET CLASS</b>	<b>FUND</b>	<b>INVESTMENT ADVISORS' SHORT TERM ASSET ALLOCATION RANGE</b>	<b>CUSTOMISED BENCHMARK</b>	<b>AVERAGE*</b>
<b>PROTECTION ASSETS</b>				
<b>BONDS</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)*

CONTACT OFFICER: Paul Campbell – Head of Investments & Treasury Management

TEL NO.: 01642 729024