

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 13

## TEESSIDE PENSION BOARD REPORT

23 JULY 2018

### STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

#### INVESTMENT PERFORMANCE REPORT - 2017

#### **1 PURPOSE OF THE REPORT**

- 1.1 To report on the investment performance of the Fund.

#### **2 RECOMMENDATION**

- 2.1 That Members note the report, passing any comment considered 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 reported to the Teesside Pension Fund Committee 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 2017 was a very positive year for the Fund and most investors in general. Growth asset classes (Equities, Property and Alternatives) produced positive returns, particularly Equities. In addition, Bond performance was weaker than other asset classes, assisting the return for the Fund from the asset allocation decision to be underweight in Bonds.
- 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 After the strong rising markets of 2016, overall purchases and sales were almost level for 2017. In the year the Fund's Bond portfolio was sold out and sales from here and Overseas Equities were invested in Property, UK Equities and Alternative Investments. Cash increased by approx. £60 million to £460 million. The figures below show the activity detail for the year:

	Purchases	Sales	Net
	----- (£ millions) -----		
UK Equities	79.4	59.6	19.8
Overseas Equities	58.2	103.5	45.3
Alternatives	12.6	4.7	7.9
Property	40.7	12.9	27.8
UK Bonds	0	7.4	7.4
Overseas Bonds	0	6.7	6.7
UK Index-linked	0	0	0
<b>TOTAL</b>	<b>190.8</b>	<b>194.8</b>	<b>4.0</b>

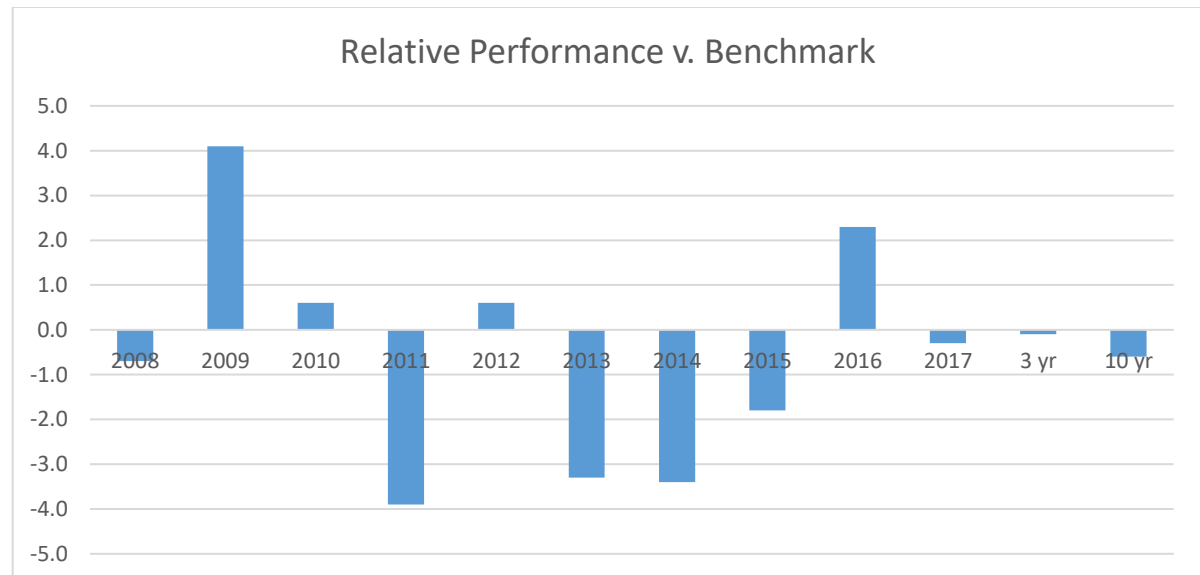
- 5.4 Over the past few years, the policy of being overweight in Equities negatively affected the Fund. The Fund has a mix of investments which differs vastly from the average fund. Members are aware of this difference in asset allocation and have accepted that such a mix carries the risk of greater 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 Committee Members to assess the effectiveness of the fund management arrangements. In the past the Fund has had a regime of undertaking regular reviews of Fund Management Arrangements. These were carried out every 5 years by the Investment Advisors, in conjunction with the Head of Investments, with a report for approval to the Committee. The last review was approved in March 2015. With pooling arrangement in place now, this assessment will be to determine if the investment strategy is correct and whether BCPP are working effectively for the Fund.

## 6. PERFORMANCE

- 6.1 The total Fund return for calendar year 2017 was 11.8%, against a benchmark return of 12.1%. 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, 11.3% p.a., 10.0% p.a., and 7.0% p.a. respectively. Over 3 years the Fund underperformed its benchmark by 0.1% p.a., over 5 years it underperformed by 1.5% and over the longer period of 10 years the Fund has also underperformed its benchmark by 0.6%.
- 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:**

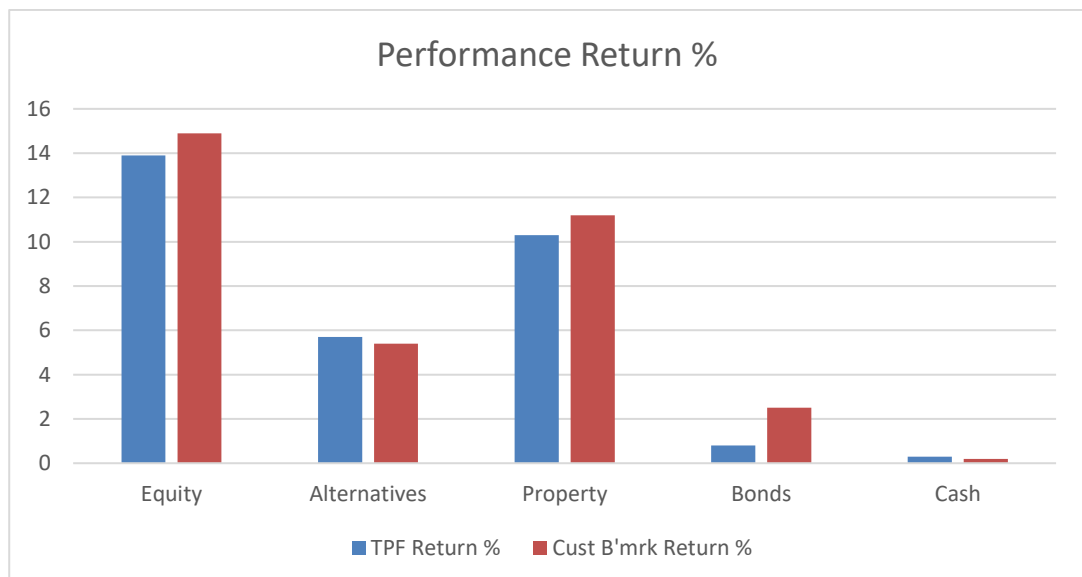
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>3 yr</b>	<b>10 yr</b>
Fund	-17.3	21.8	14.7	-4.2	10.2	12.5	3.8	2.2	20.8	11.8	11.3	7.0
B'mark	-16.7	16.9	14.0	-.03	9.6	16.4	7.4	4.1	18.5	12.1	11.4	7.6
Rel Pfmce	<b>-0.7</b>	<b>4.1</b>	<b>0.6</b>	<b>-3.9</b>	<b>0.6</b>	<b>-3.3</b>	<b>-3.4</b>	<b>-1.8</b>	<b>2.3</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.6</b>



- 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 2017:

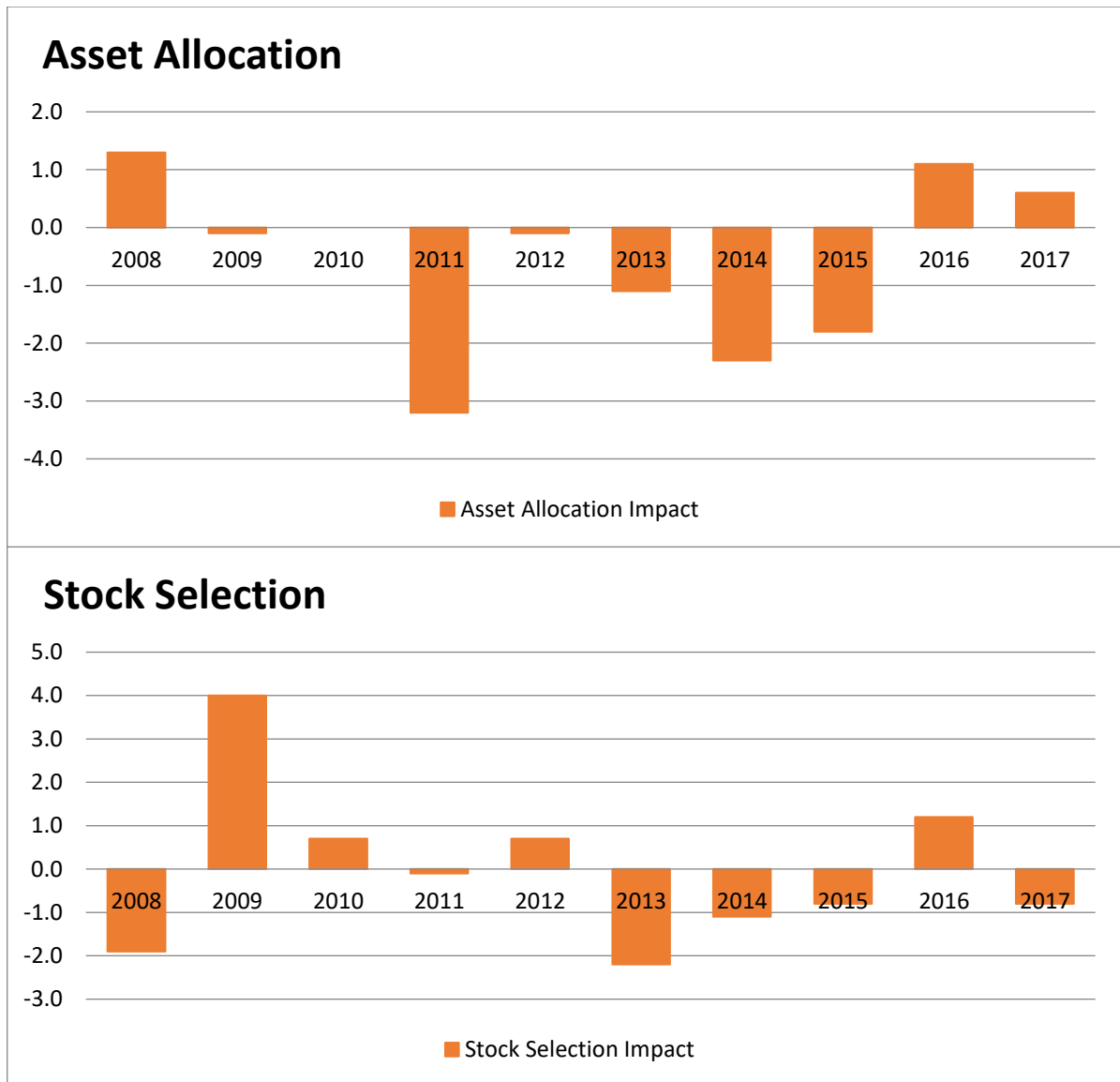
	Asset Allocation		
	Customised Benchmark %	Actual TPF %	Difference %
Equities	70	79.7	+9.7
Alternatives	5	1.6	-3.4
Property	10	6.9	-3.1
Bonds	13	0.0	-13.0
Cash	2	11.8	+9.8

6.6 For 2017, the difference in performance returns between the customised benchmark (11.8%) and the Teesside Fund (12.1%) was -0.3%. Explaining how this difference occurred, the graph below shows performance for each asset class in 2017:



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. 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.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	3yrs	10yrs
Fund	-17.3	21.8	14.7	-4.2	10.2	12.5	3.8	2.2	20.8	11.8	11.3	7.0
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Rel Pfmce	<b>-0.7</b>	<b>4.1</b>	<b>0.6</b>	<b>-3.9</b>	<b>0.6</b>	<b>-3.3</b>	<b>-3.4</b>	<b>-1.8</b>	<b>+2.3</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.6</b>
Asset All.	1.3	-0.1	0.0	-3.2	-0.1	-1.1	-2.3	-1.0	+1.1	0.6	n/a	n/a
Stock Sel.	-1.9	4.0	0.7	-0.1	0.7	-2.2	-1.1	-0.8	+1.2	-0.8	n/a	n/a



6.8 With so much of the Fund invested in Equities (approx. 80%), it is always this asset class that determines how well the whole Fund performs. There was strong performance across all regions during 2017, however negative performance at stock selection caused a drag on overall performance.

6.7 Bonds underperformed their underlying benchmark indices, however given the amount now invested in this asset class the impact was minimal. Alternatives outperformed its benchmark index, whereas Property underperformed.

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