

**LOCAL PENSION COMMITTEE – 15 FEBRUARY 2019**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**SUMMARY VALUATION OF PENSION FUND INVESTMENTS AND  
INVESTMENT PERFORMANCE OF INDIVIDUAL MANAGERS**

**Purpose of Report**

1. The purpose of this report is to present to the Committee, an update on the investment markets and how individual asset classes are performing, a summary valuation of the Fund's investments at 31<sup>st</sup> Dec 2018 (attached as an appendix to this report), together with figures showing the performance of individual managers and a funding position from the funds actuary.

**Market Outlook and Performance**

2. An update on asset classes and performance is provided by LGPS Central in Appendix B. The view is that European equities are becoming more attractive and Global Equity Market's (GEM's) are losing attractiveness. The recession risk has increased from low to medium based on rising interest rates, prolonged US growth phase and weakening economic forecasts. A view is also presented on how the market outlook impacts strategic asset allocations.

**Summary Valuation**

3. The total market value of investments at 31<sup>st</sup> December 2018 was £4,078.4m compared to £4,226.1m at 30<sup>th</sup> September 2018, a decrease of £147.7m. In the three month period non-investment related net cash inflows amounting to £7.4m were received. After adjusting for non-investment related cash flows the Fund value decreased by £155m, or 3.7%, due to changes in the value of investments.
4. The total returns of various indices since 30<sup>th</sup> September 2018 were as follows:-

	<b>Local Currency %</b>	<b>Converted to Sterling %</b>	<b>Return with 50% hedge %</b>
UK Gilts	+1.9	+1.9	+1.9
UK Index-Linked	+1.9	+1.9	+1.9
UK Equities	-10.0	-10.0	-10.0
North American Equities	-13.4	-11.8	-12.6
European Equities	-11.8	-10.9	-11.4
Japanese Equities	-17.4	-12.4	-14.9
Pacific (Ex Japan) Equities	-8.6	-7.6	-8.1

5. The current split of investments over sectors is as follows:-

	31 <sup>st</sup> December 2018		30 <sup>th</sup> September 2018
	£m	%	%
UK Equities	285.9	7.0	7.6
Overseas Equities	1,461.4	35.8	39.3
Targeted Return/Credit/Opportunity Pool	1,006.4	24.7	23.6
Private Equity	202.3	5.0	4.1
Property	399.7	9.8	9.2
Cash	82.9	2.0	1.4
Inflation-Linked Assets	644.8	15.8	14.8
Active and Passive Currency	(5.0)	(0.1)	(0.0)
	4,078.4		

6. The investment performance of the individual managers is presented in the tables below, over various periods. For most managers the benchmark performance quoted is based on indices, for targeted return managers the benchmark is cash + 4% p.a. and for Millennium the benchmark is 1.5% p.a.

### 3 months

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Ashmore (emerging market debt)	+0.1	+0.2	-0.1
Aspect Capital (managed futures)	-12.3	+1.2	-13.5
Aviva Investors (property)	+0.9	+0.9	0.0
Delaware (emerging market equities)	-4.2	-5.3	+1.1
Kempen (equity dividend)	-6.8	-11.3	+4.5
Kleinwort Benson (equity dividend)	-10.5	-10.6	+0.1
Legal & General (passive global equities)	-10.5	-10.5	0.0
Millennium (currency)	-0.7	+1.5	-2.2
Pictet (targeted return)	-6.3	+1.2	-7.5
Ruffer (targeted return)	-4.2	+1.2	-5.4

### One year

Manager/Portfolio	Actual (%)	B/mark(%)	Relative (%)
Ashmore (emerging market debt)	-4.0	-4.5	+0.5
Aspect Capital (managed futures)	-16.6	+4.6	-21.2
Aviva Investors (property)	+7.3	+6.5	+0.8
Delaware (emerging market equities)	-7.8	-9.3	+1.5
Kempen (equity dividend)	-3.9	-3.0	-0.9
Kleinwort Benson (equity dividend)	-6.3	-3.8	-2.5
Legal & General (passive global equities)	-5.9	-5.9	-0.0
Millennium (currency)	-0.6	+1.5	-2.1
Pictet (targeted return)	-6.2	+4.6	-10.8
Ruffer (targeted return)	-4.7	+4.6	-9.3

**Three years (performance per annum)**

<b>Manager/Portfolio</b>	<b>Actual (%)</b>	<b>B/mark(%)</b>	<b>Relative (%)</b>
Ashmore (emerging market Debt)	+9.3	+5.0	+4.3
Aspect Capital (managed futures)	-7.6	+4.4	-12.0
Aviva Investors (property)	+7.3	+6.4	+0.9
Delaware (emerging market equities)	+18.5	+14.7	+3.8
Kempen (equity dividend)	+13.9	+11.6	+2.3
Kleinwort Benson (equity dividend)	+11.2	+11.9	-0.7
Legal & General (passive global equities)	+10.9	+10.9	-0.0
Millennium (currency)	-0.9	+1.5	-2.4
Pictet (targeted return)	+3.5	+4.4	-0.9
Ruffer (targeted return)	+3.3	+4.4	-1.1

**Five years (performance per annum)**

<b>Manager/Portfolio</b>	<b>Actual (%)</b>	<b>B/mark(%)</b>	<b>Relative (%)</b>
Ashmore (emerging market debt)	+3.7	+2.0	+1.8
Aspect Capital (managed futures)	+2.6	+4.5	-1.9
Aviva Investors (property)	+10.9	+9.7	+1.2
Delaware (emerging market equities)	+8.3	+7.1	+1.2
Kempen (Equity Dividend)	+9.8	+10.2	-0.4
Kleinwort Benson (equity dividend)	+8.9	+9.9	-1.0
Legal & General (passive global equities)	+8.5	+8.5	-0.0
Millennium (currency)	+0.5	+1.5	-1.0
Ruffer (targeted return)	+3.7	+4.5	-0.8

**Funding Update**

7. The latest funding update, from the fund's actuary, is attached in Appendix C. This report compares the current funding position for Leicestershire against the liabilities to be paid and shows what proportion of the fund is funded. The funding level has reduced in the quarter from 82% to 77%. This is predominately driven by the fall in asset values (c.-4%) when an increase (c.1%) would normally be expected

**Recommendation**

The Local Pension Committee is asked to note the report and that the Hymans Funding Update is to be provided to the committee twice per year.

**Appendices**

Appendix A -Summary Valuation of Funds performance

Appendix B - Report of LGPS Central Limited – Strategic Asset Allocation (Market outlook and Performance).

Appendix C - Funding Update from the Fund Actuary Hymans Robertson

**Equality and Human Rights Implications**

10. None.

**Officers to Contact**

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## Appendix A

## LEICESTERSHIRE PENSION FUND INVESTMENTS AT 31 DECEMBER 2018

	<u>Market Value</u>	<u>Value</u>	<u>Benchmark</u>	<u>Variance</u>
	£	%	%	%
<u>Equities</u>				
United Kingdom	285,920,659	7.01	7.10	-0.09
Overseas:				
Global dividend-focused	315,727,796	7.74	8.00	-0.26
North America	480,084,172	11.77	12.80	-1.03
Europe (Ex UK)	212,807,517	5.22	5.30	-0.08
Japan	102,854,082	2.52	2.40	0.12
Pacific (Ex Japan)	105,142,991	2.58	2.40	0.18
Emerging Markets	244,779,172	6.00	6.00	0.00
Total	1,461,395,731	35.83	36.90	-1.07
<u>Private Equity</u>				
	202,285,857	4.96	4.00	0.96
<u>Property</u>				
Direct Holdings	104,320,000	2.56	3.30	-0.74
Indirect Holdings	295,367,929	7.24	6.70	0.54
Total	399,687,929	9.80	10.00	-0.20
<u>Alternative Investments</u>				
Fauchier	391,633	0.01	0.00	0.01
Pictet	113,531,761	2.78	2.00	0.78
Ruffer	246,672,983	6.05	6.00	0.05
Credit Opportunities	272,819,512	6.69	7.50	-0.81
Aspect	120,469,450	2.95	3.50	-0.55
Emerging Market Debt	107,319,208	2.63	2.50	0.13
Opportunity pool	145,232,757	3.56	4.00	-0.44
	1,006,437,303	24.68	25.50	-0.82
<u>Inflation-Linked Assets</u>				
Global Government Index-Linked E	302,099,926	7.41	7.50	-0.09
Infrastructure	214,849,527	5.27	6.00	-0.73
Timberland	127,830,667	3.13	3.00	0.13
	644,780,119	15.81	16.50	-0.69
<u>Cash on Deposit</u>				
	82,937,394	2.03	0.00	2.03
<u>Unrealised Profit/Loss On Currency</u>				
Active	594,678	0.01	0.00	0.01
Passive	-5,592,568	-0.14	0.00	-0.14
Total	-4,997,890	-0.12	0.00	-0.12
<b>TOTAL</b>	<b>4,078,447,102</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>

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