

Local Members Interest	

PENSIONS PANEL – 20 MAY 2014

Report of the Director of Finance and Resources

PENSION FUND INVESTMENT PERFORMANCE 2013/14

1. Purpose of Report

1.1 To provide, for information;

- i) a summary of performance of the Staffordshire Pension Fund as at 31 March 2014; and
- ii) a portfolio of the Pension Fund's investments as at 31 March 2014.

2. Performance Summary

2.1 Period

	<u>Fund</u> %	<u>Benchmark</u> %	<u>Relative</u> <u>Performance</u> %
June 2013 Quarter	-0.3	-0.6	0.3
September 2013 Quarter	2.8	2.1	0.7
December 2013 Quarter	4.6	3.9	0.7
March 2014 Quarter	1.0	0.7	0.3
Financial Year 2013/2014	8.2	6.2	2.0

2.2 Equity markets rose modestly in Q1 2014 but within this there was substantial volatility. The MSCI World ended the quarter up 1.02% in local currency terms. The S&P 500 and MSCI Europe were slightly ahead of global markets, ending the quarter up 1.65% and 1.82% respectively. Japan considerably underperformed global markets, falling 6.74%. Emerging Markets also continued to underperform, with Mexico falling 5.32%, Brazil 1.68% and China 5.83%.

2.3 In the US in March the Federal Reserve continued to taper its Quantitative Easing (QE) programme, lowering the monthly rate by a further US\$10bn. At the same meeting the new Federal Reserve (Fed) Chair, Janet Yellen, announced that the Fed may begin to raise interest rates around six months after the end of QE. This surprised investors who had been expecting deferred rate rises as this suggested a rate rise as early as Q1 2015.

- 2.4 US Q4 2013 GDP was revised down to an annualised 2.6% during the quarter with most of the blame for this put down to severe weather. The continued bad weather through January and February led analysts to cut their Q1 2014 expectations to around 1.5%. Post quarter end it was revealed that the first estimate of Q1 2014 GDP was a dismal 0.1%, suggesting the US economy has weakened from the strength that was seen in the second half of 2013.
- 2.5 In Europe the economy surprised on the upside, with GDP growth rates stabilising and some surveys, such as those in manufacturing, indicating healthy expansion. The area is still suffering from very high unemployment and there are now concerns that Europe may be falling into a deflationary spiral (Eurozone March CPI was 0.5%). As a result the European Central Bank is said to be considering introducing QE, which will have the effect of driving inflation higher.
- 2.6 Tension between Russia and Ukraine dominated political news in the first quarter of 2014, with Russia excluded from the next G8 meeting and sanctions imposed on President Putin's inner circle as a result of the annexation of Crimea. The economic complication is that around 30% of European gas comes from Russia and this reduces Europe's ability to impose any substantive sanctions on Russia.
- 2.7 The UK had another positive quarter in terms of GDP growth with the first estimate for Q1 GDP coming in at 0.8%. The nature of the economic recovery in the UK has attracted criticism, with the focus on the housing market through the Help to Buy scheme. This has led to some warning that the UK was on the threshold of another housing bubble.
- 2.8 Staffordshire Pension Fund concluded the Financial Year with another quarter of positive performance, generating a return of 1.0% and outperforming its benchmark return by 0.3%. This has concluded an extremely successful year for the Fund's investments, with a portfolio return of 8.2% which is 2.0% ahead of its benchmark return. Longer term, the Fund has also outperformed its benchmark returns over 3 and 5 years.

3. **Portfolio of Investments at 31 March 2014**

- 3.1 A copy of the Staffordshire Pension Fund's portfolio of investments as at 31 March 2014 is attached.

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Background Documents:
Portfolio Evaluation Performance Measurement Data