

Local Members Interest	

PENSIONS PANEL – 2 DECEMBER 2014

Report of the Director of Finance and Resources

PENSION FUND INVESTMENTS 2014/15

1. Purpose of Report

- 1.1 To provide, for information, a portfolio of the Pension Fund's investments as at 30 September 2014.

2. Financial Market Background

- 2.1 Global equities were broadly positive over the quarter, the MSCI World and MSCI All Countries World Indices rose +0.82% and +0.79% in local currency terms. Sentiment was driven by ongoing central bank policy support and improving US economic data.
- 2.2 During the quarter, the Federal Reserve cut its bond-buying programme down to \$15 billion a month and indicated Quantitative Easing (QE) would end in October. Fed officials reiterated their commitment to keep interest rates near zero for a "considerable time" after QE ends. The European Central Bank was also active. In an effort to counter poor growth and deflation worries they cut the benchmark interest rate to 0.05% and introduced new stimulus measures.
- 2.3 The US saw an expected rebound in GDP growth when a Q2 figure of 4.6% (annualised) was released during Q3. Post quarter end the first estimate of Q3 growth was released at 3.5%, meaning the US is in line for healthy annual growth in 2014. Other US economic data has also remained robust, with unemployment falling to 5.9% in September, the first reading below 6% since the summer of 2008.
- 2.4 The UK continued to produce the best economic performance in Europe, despite slowing from the very strong levels of the first half of the year. Q3 GDP growth was recently released at 0.7%, which is down slightly on the 0.9% Q2 GDP figure. The biggest issue affecting the UK economy during Q3 was the Scottish independence referendum which caused market volatility, as the chance of the UK breaking up seemed to increase in the run up to the vote.
- 2.5 In other markets, China seems to be on a continuing path to lower levels of growth. In particular, there was a considerable drop in lending and money supply growth in Q3. Japan also struggled during the third quarter as a series of weak economic data releases showed the country has yet to fully rebound

from the sales tax hike in April. This meant the Japanese economy contracted by 1.6% in Q3 and entered a technical recession.

3. **Fund Value**

- 3.1 At £3.45 billion, the market value of the Fund at 30 September 2014 is the highest market value of the Fund reported to date. Markets reacted dramatically in mid-October, to the reignited fears about the slowdown in the global economy, particularly the almost certain deflation in the Eurozone and the thought of a potential recession in Germany. On 15 October 2014, this, together with heightened fears about the spread of the Ebola virus caused global stock markets to plummet. Fortunately, markets have recovered again since then and the latest estimated valuation of the Fund, as at 21 November 2014, sees the Fund back to its 30 September value.

4. **Funding Level**

- 4.1 It is pleasing to report that the Actuary has recently indicated that the funding level of the Fund has improved, since the actuarial valuation in March 2013, substantially as a result of the performance of investments, which is reflected in the highest ever level of Fund assets referred to above.
- 4.2 The Actuary has also shown that on a 'like for like' comparison with 87 other Local Authority Pension Funds, Staffordshire's funding level is above average.
- 4.3 Finally the Actuary has concluded that taking into account the;
- funding level,
 - level of contribution rates, and
 - relative maturity of the Fund,

Staffordshire's position is very strong relative to 87 other Local Authority Funds.

5. **Portfolio of Investments at 30 September 2014**

- 5.1 A copy of the Staffordshire Pension Fund's portfolio of investments as at 30 September 2014 is attached.

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Background Documents:
Portfolio Evaluation Performance Measurement Data