

Local Members Interest	

PENSIONS PANEL – 8 SEPTEMBER 2015

Report of the Director of Finance and Resources

PENSION FUND INVESTMENT PERFORMANCE 2015/16

1. Purpose of Report

1.1 To provide, for information;

- i) a summary of performance of the Staffordshire Pension Fund as at 30 June 2015; and
- ii) a portfolio of the Pension Fund's investments as at 30 June 2015.

2. Performance Summary

2.1 Period

	<u>Fund</u>	<u>Benchmark</u>	<u>Relative</u> <u>Performance</u>
	%	%	%
June 2015 Quarter	-2.4	-2.8	0.4

2.2 Global equity markets were fairly subdued during the second quarter of 2015 with the MSCI World falling -0.69% in local currency terms. Japan was a notable outperformer, rising +5.84% in local currency terms and Chinese performance was strong too, rising over 6% in local currency terms. The Chinese performance masked considerable volatility however, with the MSCI China peaking at over 18% during the quarter, before a substantial sell-off, which has continued post quarter end.

2.3 According to the first estimate by the Office for National Statistics (ONS), the UK economy grew by 0.7% quarter on quarter in Q2 2015. This was higher than the 0.4% growth registered in Q1 2015 and was predominately driven by the services sector.

2.4 UK inflation entered negative territory during the second quarter of 2015; the first time the UK had fallen into deflation for half a century. However, inflation is forecast to pick up again towards the end of 2015, when low energy prices fall out of the annual calculation.

2.5 The Greek crisis dominated European financial news towards the end of Q2, as negotiations on a new bailout initially failed and Greece was forced to

introduce capital controls. A deal was eventually struck after a hastily organised referendum rejected the initial terms but the crisis did expose the inability of Greece to service its debt.

- 2.6 In the US, investors spent a large part of Q2 Federal Reserve (Fed) watching; trying to pinpoint when they might raise interest rates. In the much awaited briefing after the Fed's policy meeting in June 2015, Janet Yellen suggested that no decision has been made by the committee, about the timing of an increase, although a hike is certainly a possibility this year.
- 2.7 China's economy showed signs of slowing down over the quarter with various indices weakening from previous quarters (e.g. factory activity). With weaker economic growth, inflation far below the official target and a 20% plunge in the stock markets within two weeks, the People's Bank of China reacted by cutting interest rates, by 0.25% to 4.85% – the fourth cut since November 2014.

3. **Fund Value**

- 3.1 With the second quarter of 2015 giving back the gains of the first quarter, the market value of the Fund at 30 June 2015 fell just short of £3.7 billion. The Fund did outperform its benchmark return by 0.4%, but equity market declines meant the Fund returned -2.4% over the quarter versus the benchmark return of -2.8%.
- 3.2 Whilst the return from the Fund's Global Equity portfolio (-5.1%) impacted negatively on the Fund's performance, this was mitigated to some degree by positive returns from the Fund's Private Equity portfolio, which generated a return of +13.5% and also the Fund's Property portfolio which generated a return over the quarter of +3.7%.
- 3.3 Over the longer term, the Fund continues to outperform its benchmark return in the 1, 3 and 5 year time periods by +1%, with an absolute return in each of the last 5 years of +10.9%, well above the return assumptions made by the Actuary in the 2013 valuation.

4. **Portfolio of Investments as at 30 June 2015**

- 4.1 A copy of the Staffordshire Pension Fund's portfolio of investments as at 30 June 2015 is attached.

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Background Documents:
Portfolio Evaluation Performance Measurement Data