

Local Members Interest	

PENSIONS PANEL – 7 JUNE 2016

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 31 March 2016; and
- ii) a portfolio of the Pension Fund's investments as at 31 March 2016.

2. Performance Summary

2.1 Period

	<u>Fund</u> %	<u>Benchmark</u> %	<u>Relative Performance</u> %
June 2015 Quarter	-2.4	-2.8	0.4
September 2015 Quarter	-3.7	-3.5	-0.2
December 2015 Quarter	4.8	4.9	-0.1
March 2016 Quarter	1.8	2.0	-0.2
2015/16 Financial Year	0.2	0.4	-0.2

2.2 The first quarter of 2016 was marked by significant volatility. The MSCI World fell more than 11% between the start of the year and mid-February, before rebounding to end the quarter down 2.0%. The US was the best performing developed market, with the S&P 500 ending the quarter up 1.2%. Europe lagged global markets, with the MSCI Europe falling 4.9%. However, Japan was the worst performing market with the Topix ending the quarter down over 12%.

2.3 The risk aversion at the beginning of 2016 stemmed from global growth concerns. These were driven primarily by uncertainty over China's policy response to address economic growth and stock market volatility, but also fears of a recession in the US.

- 2.4 In March, the head of the US Federal Reserve, Janet Yellen scaled back 2016 forecast interest rate increases from four to two, with the fragile global recovery cited as a key reason. Other central banks were also active during the quarter. Japan took investors by surprise in cutting interest rates to minus 0.1%, and in a similar move, European Central Bank President Mario Draghi announced further rate cuts and increased stimulus packages.
- 2.5 UK economic growth slowed in Q1 2016, hit by a drop in manufacturing and construction output. Gross domestic product grew by 0.4%, down from 0.6% in Q4 2015. During the quarter The Bank of England warned that uncertainty due to the upcoming EU vote could hurt growth in the first half of 2016, the International Monetary Fund (IMF) also downgraded its forecast for the UK economy over fears of disruption if Britain votes to leave the EU.

3. **Fund Value**

- 3.1 The Fund had a market value of £3.72 billion at 31 March 2016.
- 3.2 The Fund returned 1.8% over the quarter, marginally underperforming its benchmark of 2.0%. The best performing asset class relative to benchmark was bonds, with a return of 3.7% followed by equities at 1.6%, property at 1.4% and the Fund's alternative investments at 0.3%. The Fund's underperformance this quarter was generated from the Fund's equity portfolios with several of the Fund's investment managers struggling as a result of the volatile markets. As always, the Fund's investment managers are monitored closely and challenged should there be any prolonged periods of underperformance.
- 3.3 Whilst the 2015/16 financial year sees the Fund marginally below its benchmark return, over the longer term the Fund continues to outperform its strategic benchmark return and has generated absolute returns of 7.2% and 7.9% per annum in the 3 and 5 year time periods respectively. These are ahead of the long term return assumptions used by the Actuary in his last valuation of the Fund.

4. **Portfolio of Investments as at 31 March 2016**

- 4.1 A copy of the Staffordshire Pension Fund's portfolio of investments as at 31 March 2016 is attached.

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Background Documents:
Portfolio Evaluation Performance Measurement Data