

Local Members Interest	

PENSIONS PANEL – 7 MARCH 2017

Report of the Director of Finance and Resources

PENSION FUND INVESTMENT PERFORMANCE 2016/17

1. Purpose of Report

1.1 To provide, for information;

- i) a summary of performance of the Staffordshire Pension Fund as at 31 December 2016; and
- ii) a portfolio of the Pension Fund's investments as at 31 December 2016.

2. Performance Summary

2.1 Period

	<u>Fund</u> %	<u>Benchmark</u> %	<u>Relative Performance</u> %
June 2016 Quarter	5.9	6.2	-0.3
September 2016 Quarter	6.9	6.1	0.8
December 2016 Quarter	4.0	4.1	-0.1
2016/17 Financial Year to date	17.8	17.2	0.5

2.2 The MSCI **World** Index rose by +4.78% in local currency terms during the fourth quarter of 2016. The US underperformed Europe with the S&P 500 rising 3.65% and MSCI Europe rising 5.44%. Emerging market performance was mixed; Mexico and China were two of the weaker markets with Russia by far the strongest.

2.3 In the **UK** there was continued uncertainty surrounding exiting the European Union with the High Court ruling that parliament must be consulted. Despite ongoing uncertainty, UK economic growth indicators generally impressed the market during the quarter. The FTSE rose to all-time highs of over 7000 by the end of the quarter. The Pound weakened sharply at the beginning of the quarter following suggestion Article 50 would be triggered by March 2017, but firmed towards the end of the period following resilient economic data.

2.4 In the **US** the Dow Jones index rose to new all-time highs, of 20,000, as investors priced in lower tax rates and higher government spending following

Trump's election. Expectations for further inflation on the back of his fiscal plans also heightened with the Federal Reserve increasing interest rates in December. Inflation increased to 1.7% year on year, and unemployment fell to 4.6%. The US Dollar rose to a 14 year high against the euro at the end of the year and continued to rise against the pound.

- 2.5 **Emerging Markets** were hit by the strength of the US Dollar and concerns about Trump's protectionist policies with regard to trade deals. These headlines broadly overshadowed positive policy developments and economic data. Brazil introduced a spending growth limit and Russia continued efforts to reduce their budget deficit to 3%.
- 2.6 In **Europe**, the European Central Bank (ECB) extended its quantitative easing program until the end of 2017. Whilst in Italy a referendum on constitutional reform was rejected resulting in the resignation of Prime Minister Matteo Renzi. After the referendum, Moody's cut Italy's sovereign rating outlook to negative from stable. The Euro weakened over the quarter given concerns over the European banking system, particularly following the outcome of the referendum in Italy. Inflation remained flat at 0.6% year on year for November.

3. **Fund Value**

- 3.1 The Fund had a market value of £4.4 billion as at 31 December 2016.
- 3.2 Over the quarter the Fund returned 4.0%, marginally underperforming its strategic benchmark by -0.1%. This was primarily due to stock selection generated within the equity pool where global equity managers had mixed performance success. The Emerging Markets and UK Equity portfolios had positive quarters and outperformed their benchmarks. Asset allocation also contributed a minor underperformance primarily due to being overweight cash; a low returning asset class.
- 3.3 The Fund has outperformed its strategic benchmark by 0.5%, in the year to date and longer term, over the 3 and 5 year time periods it continues to outperform its strategic benchmark by 0.3% and 0.7% respectively. The high returning Private Equity portfolio and outperformance generated by the Property portfolios were both contributors to the outperformance over the year to date.

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

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

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Background Documents:
Portfolio Evaluation Performance Measurement Data