

CAMBRIDGESHIRE PENSION FUND



Pension Fund Committee

28 July 2016

Report by: HEAD OF PENSIONS

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| Subject: | WM Annual Performance Review to 31 March 2016 |
| Purpose of the Report | To review the investment market environment and the performance of the Fund's investments for the year to 31 March 2016 relative to its LGPS peers. |
| Recommendations | That the Committee notes the Annual Performance and Benchmarking Review. |
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1 Background

- 1.1 The Cambridgeshire Pension Fund (the "Fund") has engaged WM State Street Global Services ("State Street") to provide performance reporting for the Fund's investments. State Street provides quarterly reports for review at the meetings of the Investment Sub Committee.
- 1.2 This report considers the annual comparison of the Cambridgeshire Fund with the Local Authority Universe, over the period from 1 April 2015 to the 31 March 2016.
- 1.3 It should be noted that from April 2016 State Street have ceased to provide performance reporting of the Local Authority Universe, but have offered to transfer the history and rights for this service to another provider should all Local Government Pension Funds authorise their data transfer to the new provider. In early July 2016 PIRC Ltd announced that they will be providing an alternative peer group analysis that will initially replace the State Street universe reporting.
- 1.4 The Cambridgeshire Fund has engaged Mercer Consulting Ltd to provide the quarterly performance reporting for the Fund, at similar terms to the WM arrangements. The duration and nature of this arrangement will be reviewed following the effective implementation of Asset Pooling anticipated in April 2018.

- 1.5 The Committee are requested to note that the universe is not a league table, where the highest return is the sole measure of success. Rather the comparative value is to learn and consider the potential benefits of other Funds performance and strategy plans.
- 1.6 Benchmarking against peers provides useful perception on the progress of Cambridgeshire Fund investments, asset allocation options and a view on the quality of Fund Managers and strategy.

2 2015-16 Annual Review

- 2.1 The Annual Review is attached as an Appendix to this paper.
- 2.3 Investment performance highlights for the financial year to March 2016 are:-
 - 2.3.1. Over the one year view the Fund Return of -1.9% underperformed the Local Authority universe of 0.2%. This underperformance was attributable to asset allocation (-0.2%) and stock selection (-2.0%). Performance of the Fund was below average when compared to the universe.
 - 2.3.2. A longer term perspective shows underperformance against the Local Authority universe over three (-0.6%) and five year periods (-0.5%). Both durations produced below average performance when compared to the universe.
 - 2.3.3. Relative to other Funds Cambridgeshire has underperformed in all asset classes except alternatives and property in the latest year. Compared to others the Fund has performed well in UK equities alternatives but less well in non-UK equities, bonds and property over the medium term.
 - 2.3.4. Comparing the Local Authority Universe asset allocation, the Cambridgeshire Fund holds a significantly higher equity allocation, broadly equal weighted allocations in other alternatives such as Private Equity and Hedge Funds, in property and cash, but a lower allocations to bonds.

3 Recommendation

- 3.1 That the Committee notes the Annual Performance and Benchmarking Review.

4 Relevant Pension Fund Objectives

| Perspective | Outcome |
|-------------------------------|--|
| Funding and Investment | <ul style="list-style-type: none">• Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.• Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.• Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment• Maximise investment returns over the long term within agreed risk tolerances. |

5 Finance & Resources Implications

- 5.1 There are no financial or resource implications at this time that require consideration.

6 Risk Implications

a) Risk(s) associated with the proposal

| Risk | Mitigation | Residual Risk |
|----------------------------------|------------|---------------|
| None, this report is for noting. | | Green |

b) Risk(s) associated with not undertaking the proposal

| Risk | Risk Rating |
|---|-------------|
| The Pension Committee are not clear on the performance of the Fund's investments. | Amber |

7 Communication Implications

7.1 Not applicable

8 Legal Implications

8.1 There are no legal implications as a result of the recommendations set out in this paper.

9 Consultation with Key Advisers

9.1 The report was produced utilising information and advice provided by WM State Street Global Services and the Fund's investment managers.

10 Alternative Options Considered

10.1 Not applicable.

11 Background Papers

11.1 None.

12 Appendices

12.1 Appendix 1 – WM State Street Global Services Cambridgeshire Pension Fund Annual Review.

| Checklist of Key Approvals | |
|--|------------------------------|
| Is this decision included in the Business Plan? | No. |
| Will further decisions be required? If so, please outline the timetable here | No. |
| Is this report proposing an amendment to the budget and/or policy framework? | No. |
| Has this report been cleared by the Head of Pensions? | Mark Whitby. 11 July 2016. |
| Has this report been cleared by the Section 151 Officer / Director of Finance? | Sarah Heywood 13 July 2016. |
| Has the Chairman of the Pension Fund Committee been consulted? | Cllr Hickford. 12 July 2016. |
| Has this report been cleared by Legal Services? | Laurie Gould 18 July 2016. |