

Executive Manager: Jan-Robert Riise
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Dear Sir/Madam

Date: 28 November 2017

You are invited to the following meeting:

Pension Fund Committee / Pension Board
Council Chamber, Town Hall, Lerwick
Wednesday 6 December 2017 at 11.30am

Please note that in accordance with the agreed terms of reference, this is a concurrent meeting of both the Pension Fund Committee and the Pension Board - SEE MEMBERSHIP OF BOTH BODIES OVERLEAF

Apologies for absence should be notified to Louise Adamson at the above number.

Yours faithfully

Executive Manager – Governance and Law
[and Joint Secretary to the Pension Board]

Chair: Cecil Smith
Vice-Chair: Steven Coutts

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.

- (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.
- (d) Confirm the minutes of the meeting held on (i) 29 August 2017, and (ii) 20 September 2017 (enclosed).

Items

- 1. Presentation from Schroders Investment Management
F-095
- 2. Management Accounts for Pension Fund Committee: 2017/18
Projected Outturn at Quarter 2
F-090
- 3. 2017/18 Mid Year Performance Review Report
F-094

Pension Fund Committee	Pension Board	
M Burgess A Cooper S Coutts A Duncan S Leask R McGregor C Smith G Smith T Smith R Thomson	<u>Employers Representatives:</u> M Bell, SIC E Macdonald, SIC I Scott, SIC J Johnston, SRT <u>Joint Secretary</u> J Riise, Executive Manager – Governance and Law	<u>Trade Union Representatives:</u> David Marsh, Unison Alan Goudie, Unite Robert Williamson, GMB Austin Taylor, Unison <u>Substitutes:</u> C Wiseman, Unison <u>Joint Secretary</u> C Wiseman, Unison



Meeting(s):	Pension Fund Committee Pension Board	6 December 2017 6 December 2017
Report Title:	Presentation from Schroders Investment Management	
Reference Number:	F-095-F	
Author / Job Title:	Jonathan Belford Executive Manager - Finance	

1.0 Decisions / Action required:

- 1.1 The Pension Fund Committee and Pension Board are asked to NOTE the presentation.

2.0 High Level Summary:

- 2.1 As part of the Pension Fund's governance arrangements to receive fund manager presentations at the quarterly meetings, representatives of Schroder Investment Management will attend the meeting and give a presentation to the Pension Fund Committee and Pension Board regarding their mandate.
- 2.2 Schroders manage a property fund on behalf of the Pension Fund and were awarded this property mandate in March 2007, with management of that mandate commencing in July 2007.
- 2.3 Schroders are a large global fund management company and a FTSE 100 member. Asset management is their only business with 41 offices in 27 different countries.
- 2.4 Representatives from Schroders will attend the meeting and give a presentation explaining how Schroders invest, along with a review of their performance. Schroders will give out handouts at the meeting to go along with their presentation. Information on Schroders and the fund's investment performance is in the Pension Fund Report covering the six month period from April to September 2017, which is included at item 3 on the agenda for this meeting.
- 2.5 The presentation from Schroders along with this report is intended to inform the members and employers about the Pension Fund's property investment and its investment performance. It is envisaged that all of the Pension Fund Managers will over future meetings be invited to give similar types of presentations.

3.0 Corporate Priorities and Joint Working:

- 3.1 The report links to the Council's corporate priorities, defined in its Corporate Plan, specifically in relation to assisting the Pension Fund in ensuring that financial resources are managed effectively.

4.0 Key Issues:

4.1	The presentation from Schroders forms part of the governance arrangements in regard to the investments, to allow the Pension Fund Committee and Pension Board the opportunity to meet and hear directly from a fund manager that is investing on behalf of the Pension Fund. This also provides an opportunity to question the fund manager on any aspect of the fund and its performance.
5.0	Exempt and/or confidential information:
5.1	None

6.0 Implications :	
6.1 Service Users, Patients and Communities:	The Fund Manager presentation forms part of the monitoring of the Pension Fund's investments, to assist in providing reassurance to members and employers that the fund is being managed appropriately for the long term sustainability objectives, and to ensure that monies will be available to fund future pension benefits for members.
6.2 Human Resources and Organisational Development:	None.
6.3 Equality, Diversity and Human Rights:	None.
6.4 Legal:	As required by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, where investment managers have been appointed their performance must be kept under review.
6.5 Finance:	<p>The long term investments and their performance are important to the Pension Fund and the achievements of its outcomes and objectives.</p> <p>It is recognised that the actual investment performance each year will be different to what is expected or required however over the long term this will be monitored and reviewed to ensure that the Pension Fund is working towards meeting its long term investment objectives.</p> <p>It is not likely that the Pension Fund can expect a positive investment return from its investments every year but having robust governance and monitoring in place, alongside a diversified investment strategy mitigates the financial risks and enables the Pension Fund to take action at appropriate times to address poor performance by the fund managers. This report is part of that governance and monitoring framework.</p>

6.6 Assets and Property:	<p>Long term investments are assets of the Pension Fund and represent money given to fund managers to manage on its behalf for long term benefit. The Pension Fund relies upon each fund manager's fiduciary duty and to buy and sell appropriate assets in accordance with the mandate awarded to them and to report regularly on the value and performance of the fund in which Pension Fund money is invested. The value of long term investments under these mandates can go down as well as up.</p>
6.7 ICT and new technologies:	<p>None.</p>
6.8 Environmental:	<p>Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers are expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.</p> <p>Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Pension Fund will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions.</p> <p>The fund managers, who will act in accordance with this policy, will exercise voting.</p> <p>Schroders have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.</p>
6.9 Risk Management:	<p>All investments carry risk. Risks, such as market risk are mitigated and actively managed through diversification of fund managers, asset classes, markets, size of holdings and through performance monitoring against benchmarks.</p> <p>Going forward, as the fund reaches maturity, there could be a risk where contributions receivable are less than benefits payable.</p>

	To mitigate this risk an investment strategy was approved with the aim to become fully funded by 2027, when the Fund is expected to mature. This strategy of diversification of fund managers is a significant element of mitigating the risk of investing for growth and income.	
6.10 Policy and Delegated Authority:	<p>The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund (the Pension Fund) in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pension Regulator. The Pension Board will determine the areas they wish to consider.</p>	
6.11 Previously considered by:	This report has not been presented at any formal meeting.	

Contact Details:

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Appendices:

None

Background Documents:

None



Meeting(s):	Pension Fund Committee Pension Board	6 December 2017
Report Title:	Management Accounts for Pension Fund Committee: 2017/18 – Projected Outturn at Quarter 2	
Reference Number:	F-090-F	
Author / Job Title:	Jonathan Belford, Executive Manager - Finance	
1.0	Decisions / Action required:	
1.1	That the Pension Fund Committee and Pension Board RESOLVE to review the Management Accounts showing the projected outturn position at Quarter 2.	
2.0	High Level Summary:	
2.1	The purpose of this report is to enable the Pension Fund Committee and Pension Board to monitor the financial performance of the Pension Fund to ensure that Members are aware of the forecast income and expenditure position and its impact on delivery of the approved budget.	
2.2	This report presents the projected outturn position for 2017/18 as at the end of the second quarter. The forecasts have been determined by Finance Services in conjunction with the relevant budget responsible officers.	
2.3	The projected revenue outturn position for the Pension Fund is an over-achievement of £273k (4.3%), which means that the Pension Fund is projected to receive more net income than the approved budget.	
2.4	Further detail on the projected outturn position can be found at Appendix 1.	
3.0	Corporate Priorities and Joint Working:	
3.1	There is a specific objective in the Corporate Plan that the Council will have excellent financial management arrangements to ensure that it maintains a balanced and sustainable budget and lives within its means; and that it continues to pursue a range of measures that enable effective and successful management of its finances over the medium to long term.	
3.2	By 2027, the investment strategy of the Pension Fund is targeted with achieving a 100% funding position in order to ensure that the scheme remains affordable and sustainable in the future.	
4.0	Key Issues:	
4.1	On 7 December 2016 (Min Ref 21/16) the Pension Fund Committee approved the 2017/18 Pension Fund Budget. It is vital to the economic wellbeing of the Pension Fund that its financial resources are managed effectively and that net income is delivered in line with the budget, as any overspends or under-achievements of income could result in a reduction in the net contribution to the Pension Fund.	

4.2	This report forms part of the financial governance and stewardship framework, which ensures that the financial position of the Pension Fund is acknowledged, understood and quantified on a regular basis. It provides assurance to the Corporate Management Team and the Committee/Board that resources are being managed effectively and it allows corrective action to be taken, where applicable.
4.3	At Quarter 2, the Pension Fund is projected to have a year-end over-achievement of net income of £273k.
5.0	Exempt and/or confidential information:
5.1	None.
6.0	Implications :
6.1 Service Users, Patients and Communities:	There are no implications arising from this report.
6.2 Human Resources and Organisational Development:	There are no implications arising from this report.
6.3 Equality, Diversity and Human Rights:	There are no implications arising from this report.
6.4 Legal:	There are no implications arising from this report.
6.5 Finance:	<p>The Pension Fund Investment Strategy, approved in 2015/16, seeks to address the prospect of falling income and rising expenditure projections over the longer term. The aim of the strategy is to ensure that the Pension Fund is 100% funded by 2027.</p> <p>It is vital that the Pension Fund continues to receive a surplus of income over expenditure as it is a component of the strategy to become fully funded by 2027. However, there are many factors within the Pension Fund transactions that can cause the actual outturn to differ significantly from the budget.</p> <p>Should the Pension Fund consistently under-achieve its net income budget, employer contributions may have to significantly increase in order to meet any shortfall. The success of the investment strategy, the performance of the fund managers and the cost of future liabilities, all of which are considered as part of the triennial fund valuation, are also factors that could have an effect on employer contributions.</p>
6.6 Assets and Property:	There are no implications arising from this report.
6.7 ICT and new technologies:	There are no implications arising from this report.
6.8 Environmental:	There are no implications arising from this report.

6.9 Risk Management:	<p>There are numerous risks involved in the delivery of the Pension Fund and awareness of these risks is critical to successful financial management.</p> <p>From a financial perspective, risks are an integral part of planning for the future, as assumptions and estimates are involved. These assumptions can be affected by many internal and external factors, such as supply and demand, which could have an adverse impact.</p> <p>The main financial risks for the Pension Fund are:</p> <ul style="list-style-type: none"> • That the Fund's investments fail to deliver returns in line with those required to meet the valuation of long-term liabilities; • That bond yields fall, leading to a rise in value placed on liabilities; • That employers leave the scheme or the scheme closes to new members, which could be attributed to factors such as cost, liquidation or bankruptcy; • That a failure to recover unfunded payments from employers occurs, potentially leading to other employers having to increase their employer contributions to subsidise; • That a global stock market failure occurs; • That active fund managers under-perform against expectations. 	
6.10 Policy and Delegated Authority:	<p>The Pension Fund Committee has been delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pension Regulator.</p>	
6.11 Previously considered by:	n/a	n/a

Contact Details:

Jacqueline Johnson, Senior Assistant Accountant, 01595 744625.

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Appendices:

Appendix 1 – Projected Revenue Outturn Position 2017/18

Background Documents:

Pension Fund Budget Proposals 2017/18, Pension Fund Committee/Pension Board, 7 December 2016

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=20199>

Pension Fund Committee / Pension Board

1. Revenue Outturn Position 2017/18 (Quarter 2)

Budget v Projected Outturn variance at Q1 (Adv) / Pos £000	Pension Fund	Revised Annual Budget £000	Projected Annual Outturn £000	Budget v Projected Outturn at Q2 (Adv) / Pos £000	Year to date expenditure and income to 30 September 2017 £000
30	Employee Costs	280	236	44	94
0	Operating Costs	152	148	4	86
0	Investment Expenses	1,644	1,549	95	418
(4)	Benefits Payable	9,565	9,700	(135)	4,151
0	Transfers Out	296	465	(169)	360
(39)	Lump Sums	1,695	2,054	(359)	1,479
(15)	AVC Out	225	349	(124)	349
(28)	Total Expenditure	13,857	14,501	(644)	6,937
55	Contributions Received	(16,585)	(16,723)	138	(6,975)
(13)	Other Income	(55)	(35)	(20)	(11)
(1)	Investment Income	(3,213)	(3,540)	327	(1,584)
7	Transfers In	(200)	(358)	158	(282)
221	AVC In	(225)	(539)	314	(539)
269	Total Income	(20,278)	(21,195)	917	(9,391)
					-
241	Net Income	(6,421)	(6,694)	273	(2,454)

An explanation of the significant variances to budget for the Pension Fund at Quarter 2 is set out below.

1.1 Employee Costs – underspend of £44k (15.7%)

This underspend relates to two vacancies. The Systems Administrator & Development post will shortly be re-advertised. This post, along with the recently advertised Pension Assistant post, is expected to be filled by January 2018.

The year-to-date employee costs figure represents ongoing salary costs for existing staff. There is an additional recharge of Council Finance staff time at the year-end.

1.2 Investment Expenses – underspend of £95k (5.8%)

This underspend relates to a reduction in fees for one of the Fund Managers and a saving in relation to fund performance monitoring being conducted in-house by the fund managers, rather than by a third party.

1.3 Benefits Payable – overspend of (£135k) (1.4%)

This overspend is due to more retirements in 2017/18 than anticipated when the budget was set. Members now have the option to retire between the ages of 55 and 75, and this age range is prevalent in the demographic of the Council's pension fund.

1.4 Transfers Out – overspend of (£169k) (57.1%)

This overspend relates to the transfer of employees' pensions to other Pension Funds. The value of the transfer depends on a number of factors, including salary and length of service. The budget is based on a five-year rolling average of eight transfers at £37k each and the year-to-date position consists of five transfers out at an average of £72k.

1.5 Lump Sums – overspend of (£359k) (21.2%)

The value of lump sums payable to retirees varies greatly depending on a number of factors including length of service, salary, additional voluntary contribution (AVC) portion and whether there is automatic entitlement to a lump sum. The year-to-date position represents 65 retirees, analysed as follows:

- 11 ill health retirements (£223k);
- 24 late retirements (over 65) (£556k);
- 30 normal retirements (£540k).

There were also five lump sum payments amounting to £78k that relate to flexible or phased retirements, this is where the employee accesses their retirement benefits and is still employed on reduced hours or reduced grade.

Death-in-Service benefit lump sums are paid out at the rate of three times salary. Two payments in this regard have been made so far this year. The budget is expected to underspend by £115k at the end of the financial year.

1.6 AVC Out – overspend of £124k (55.1%)

This cost varies, depending on the extent of AVCs built up during a retiree's career. The year-to-date position represents 10 retirees that have taken AVC lump sums, analysed as follows:

- 1 efficiency retirement;
- 4 late retirements;
- 4 normal retirements;
- 1 flexible retirement.

1.7 Investment Income – over-achievement of £327k (10.2%)

This additional income relates to a Schroders European property investment fund that is due to close in 2018. Its winding down means that some of the

fund's underlying assets are being sold off, generating capital receipts into the Pension Fund.

1.8 Transfers in – over-achievement of £158k (79.0%)

This is due to more, higher value transfers being received than budgeted. Income from transfers into the Pension Fund is based on the value of a new employee's previous pension benefits; transfers in from other local authority Pension Funds are often higher value than those from private Pension Funds. The budget is based on a five-year rolling average of 10 transfers at £20k each. The year-to-date position consists of 13 transfers in at an average of £27k.

1.9 AVC In – over-achievement of £314k (139.6%)

The budget here is set to match the AVCs Out budget, however transfers into the Pension Fund for AVCs upon retirement is of significantly higher value than the AVC lump sums paid out. The balance of AVCs not used for lump sums is converted to LGPS pension. This will increase ongoing benefits payable.



Meeting(s):	Pension Fund Committee Pension Board	6 December 2017 6 December 2017
Report Title:	Pension Fund – 2017/18 Mid Year Performance Review Report	
Reference Number:	F-094-F	
Author / Job Title:	Jonathan Belford, Executive Manager - Finance	

1.0 Decisions / Action required:

- 1.1 This report is a review of the Pension Fund's external investments over the first six months of the 2017/18 financial year, and as such the Pension Fund Committee and Pension Board should consider the outcome of this Mid Year review and provide comments accordingly.

2.0 High Level Summary:

- 2.1 This report will allow the Pension Fund Committee and Board to review the mid year investment position and performance of the Pension Fund's external investments, managed on their behalf by fund managers.
- 2.2 The Pension Fund's investments increased in value by £10 million over the first six months of the 2017/18 financial year and now have an overall value at the end of September of £460 million.
- 2.3 Over the first six months of the 2017/18 financial year BlackRock were close to their benchmark aim, while the four active fund managers saw mixed performance results with Schroders and M&G outperforming while KBI and Newton underperformed their respective benchmarks. The combined investment return for the Pension Fund over the six month period was 2.2%. See additional information in Appendix 1. Two representatives from Schroders will also be attending the meeting to give a presentation on their property fund and its performance.
- 2.4 The conclusion of the Mid Year review is that Fund Manager performance has been mixed individually but in absolute terms positive overall. Performance of the Fund investments, as indicated by relevant benchmarks, show that investment returns overall could have been better but there is no immediate reason to investigate further the Pension Fund making changes. Once the outcome of the Pension Fund Triennial Valuation is known an interim review of the investment strategy will be undertaken thereafter.

3.0 Corporate Priorities and Joint Working:

- 3.1 One of the reporting requirements of the CIPFA Code of Treasury Management is to formally give a Mid Year review report. This report fulfils that requirement, in relation to the Pension Fund Committee and Board while also assisting the Council

in ensuring that financial resources are managed.	
4.0	Key Issues:
4.1	This report is only a six month snapshot of how the markets and fund managers have performed. Over the remainder of the financial year the performance of the Pension Fund's investments could quickly and unpredictably increase or decrease depending on economic and investment circumstances.
5.0	Exempt and/or confidential information:
5.1	<i>None</i>

6.0	Implications :
6.1 Service Users, Patients and Communities:	The monitoring of fund Manager performance is a means of providing reassurance to members and employers that the fund is being managed appropriately for the long term sustainability objectives and to ensure that monies will be available to fund future pension benefits.
6.2 Human Resources and Organisational Development:	<i>None</i>
6.3 Equality, Diversity and Human Rights:	<i>None</i>
6.4 Legal:	As required by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, where investment managers have been appointed their performance must be kept under review.
6.5 Finance:	<p>The long term investments and their performance are important to the Pension Fund and the achievements of its outcomes and objectives.</p> <p>It is recognised that the actual investment performance each year will be different to what is expected or required however over the long term this will be monitored and reviewed to ensure that the Pension Fund is working towards meeting its long term investment objectives.</p> <p>It is not likely that the Pension Fund can expect a positive investment return from its investments every year but having robust governance and monitoring in place, alongside a diversified investment strategy, mitigates the financial risks and enables the Pension Fund to take action at appropriate times to address poor performance by the fund managers. This report is part of that governance and monitoring framework.</p>

6.6 Assets and Property:	<p>Long term investments are assets of the Pension Fund and represent money given to fund managers to manage on its behalf for long term benefit. The Pension Fund relies upon each fund manager's fiduciary duty and to buy and sell appropriate assets in accordance with the mandate awarded to them and to report regularly on the value and performance of the fund in which Pension Fund money is invested. The value of long term investments under these mandates can go down as well as up.</p>
6.7 ICT and new technologies:	<p><i>None</i></p>
6.8 Environmental:	<p>Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers are expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.</p> <p>Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Pension Fund will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions.</p> <p>The fund managers, who will act in accordance with this policy, will exercise voting.</p> <p>All of the Pension Fund managers have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.</p>
6.9 Risk Management:	<p>All investments carry risk. Risks, such as market risk are mitigated and actively managed through diversification of fund managers, asset classes, markets, size of holdings and through performance monitoring against benchmarks.</p>
6.10 Policy and Delegated Authority:	<p>The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland</p>

	<p>Islands Council Pension Fund (the Pension Fund) in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.</p> <p>The Pension Board is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator. The Pension Board will determine the areas they wish to consider.</p>	
6.11 Previously considered by:	<i>None</i>	

Contact Details:

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Appendices:

Appendix 1 - 2017/18 Mid Year Performance Review Report

Background Documents:

None

2017/18 Mid Year Performance Review Report

1.0 Investment Position and Market Performance

- 1.1 This report complies with the requirements of the CIPFA Code of Practice for Treasury Management in Public Services 2011, in respect of the requirement to report the Mid Year investment position.
- 1.2 This report concentrates on the six-month period from April to September 2017. The report looks at the performance of the Pension Fund's managers, the overall investment performance relative to the markets, the physical movement of funds, any changes from the investment strategy, and any other relevant issues relating to the investments over the period.
- 1.3 The Pension Fund has five fund managers with total investments under management at the end of September 2017 of £460 million. The funds, type of mandate and market values at the end of September 2017 are as follows:

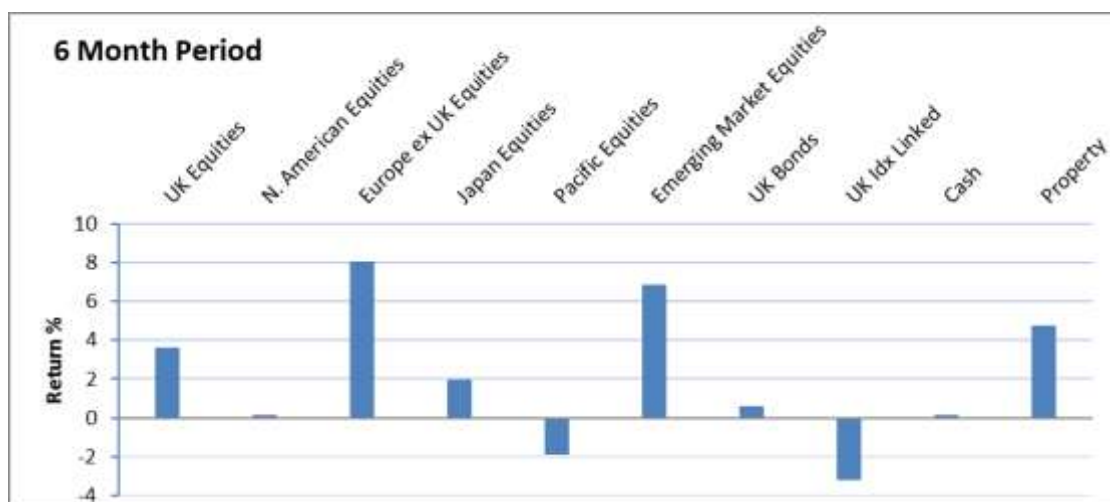
Manager	Mandate	% of Reserves	Market Value (£m)
BlackRock	Passive Equity	42%	194
KBI Global Investors	Active Equity	21%	97
Newton	Diversified Growth	17%	77
Schroders	Property	12%	53
M&G	Alternative Credit	8%	39

- 1.4 Individual fund manager performance is detailed later but there is the need to consider the effect of the markets themselves, and of any cash withdrawals or injections into the funds. The following table shows the effect on the overall investments of these factors during the six-month period.

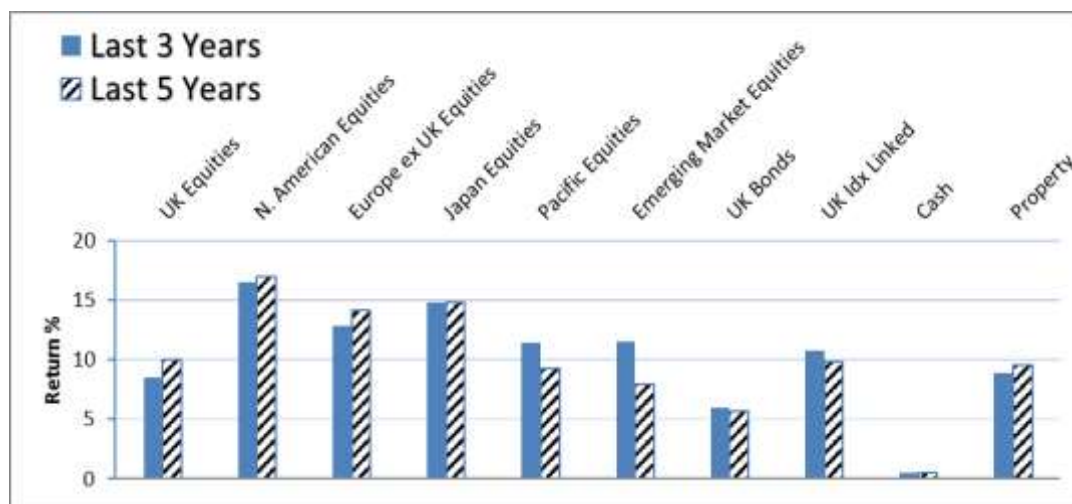
Pension Fund	£ Million
Market value as at 31/03/17	450
Additions / (Withdrawals)	1
Investment Return	<u>9</u>
Market value as at 30/09/17	<u>460</u>

- 1.5 The figures show that the Pension Fund has increased in value by £10 million over the six month period. The increase in investment returns is due to investment returns from various asset classes, with equities being the best returning asset class over the six month period.

- 1.6 There was an injection of £1.2 million into the Pension Fund investments in June 2017. This was invested with Newton and was cash that had accumulated in the Pension bank account from excess contributions over pension payments.
- 1.7 The six month period to September 2017 saw major hurricanes hit North America, while tensions increased between North America and North Korea as their war of words intensified, but over the period North America increased their interest rates and the equity market posted record highs. Japan saw improving economic data while the Prime Minister's popularity increased with his handling of the North Korean situation, which benefitted their equity markets. In Europe the UK, France and Germany all had elections, while the uncertainty over the Brexit negotiations continued. Improved economic data helped European markets, and the UK gained over the quarter boosted by good retail sales and steady low unemployment figures.
- 1.8 The investment markets performance, over the main asset classes the Pension Fund invests into, over the six-month period looked like this:



- 1.9 This is only a six month snapshot of how the various investment classes and sectors have performed and it shows how, in the short term, you can have volatility that produces both positive and negative returns. History shows that investments in these asset classes over the long term are usually positive, which is the reason the investment strategy is based on a long term investment horizon. As an example of the differences in market returns over a slightly longer time period the following graph shows the same asset classes returns per annum over the last three and five years.



- 1.10 The fund manager has negligible influence over the market return but they may be required by the mandate agreement to invest into these markets. The main constituent of a fund's performance is the market return, where the fund is invested. A fund manager with an active mandate is asked to outperform the market return by a certain percentage, whereas a fund manager with a passive mandate is aiming to match the market return.

2 Fund Manager Performance

- 2.1 The Pension Fund invests in various asset classes for the long term, generally five years or more. This report looks at just the performance of the fund managers and the investment return over a six month period.
- 2.2 The Pension Fund's managers have, over the six month period to end September 2017, performed as follows:

Manager	Mandate	Fund Return	Benchmark Return	% Return Compared to Benchmark
BlackRock	Passive Equity	2.8%	2.7%	0.1%
KBI Global Investors	Active Equity	0.8%	1.6%	-0.8%
Newton	Diversified Growth	0.7%	2.2%	-1.5%
Schroders	Property	4.9%	4.8%	0.1%
M&G	Alternative Credit	2.1%	1.6%	0.5%

- 2.3 The fund with BlackRock is invested passively in equities, so the fund is aiming to equal the benchmark return. BlackRock was very close to this aim over the six month period, while producing a return of 2.8%, which is a

reflection of the mixture of returns from the various markets the fund invests into.

- 2.4 The fund with KBI Global Investors is in active equities. Their investment strategy is based on income generating shares that pay a steady annual dividend. KBI have over the six month period underperformed the benchmark. Over this period the equity markets have produced mixed returns but the growth areas have predominately been in sectors that do not favour paying dividends. KBI have produced a positive return of 0.8% but have underperformed in a slight rising market place.
- 2.5 Newton has a diversified growth fund mandate which invests in various asset classes to spread risk and smooth investment returns. Newton have over the six month period underperformed the benchmark, but they did produce a positive return of 0.7%. Newton's return seeking assets, such as equities were broadly flat over the period but certain stabilising assets such as Government bonds and commodities produced negative returns.
- 2.6 Schrodgers invests into property via a fund of funds approach where they invest in various different property funds to spread investment risk. There are two main investment areas, UK and Europe. Schrodgers have over the six month period just outperformed the benchmark by 0.1% producing a return of 4.9%. The main contributors to Schrodgers performance were industrials and the underweight position to central London offices.
- 2.7 The fund with M&G is an alternative credit fund that invests in fixed income products such as corporate bonds, high yield bonds, asset backed securities etc. The fund outperformed the cash plus benchmark over the six month period by 0.5%. The fund's industrial and financial bonds performed well over the period. M&G are becoming more defensively positioned but ready to exploit any episodes of volatility that may occur.
- 2.8 The overall Pension Fund investment return for the six-month period to end September 2017 was 2.2%, which was 0.3% below the benchmark return.

3.0 After the end of September 2017

- 3.1 Since the end of September 2017 the financial markets have remained positive, and at the end of October 2017 the Pension Fund investments had a value of £470 million (unaudited).