



Report to Pension Fund Committee

Title: Pension Fund Performance 2006/07

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Summary

To outline the performance of the Pension Fund for the year 2006/07.

Recommendation

The Committee is asked to note the report

Overall Return 2006/07

The Fund overall returned +6.8% in 2006/07, an underperformance of –0.3% compared to its benchmark of 7.1%. Table 1 below shows fund managers' annual performance before fees.

Fund Manager & Mandate	Performance %	Benchmark %	Relative Return %
Alliance Bernstein – less constrained Global Equities	-2.4	+2.6	-4.8
BlackRock – Cash Inflation Plus	+4.7	+4.8	-0.1
Blackstone – Hedge Fund of Funds	+9.6	+4.9	+4.4
Capital International – Global Equities	+3.5	+5.8	-2.2
Legal & General - Active Bonds	+1.3	+1.3	0.0
Legal & General - Passive Equities and Bonds	+7.4	+7.4	0.0
Mirabaud – UK Equities	+11.4	+11.1	+0.3
Morley – Property Fund of Funds	+19.4	+16.5	+2.4
Standard Life – UK Equities	+15.8	+11.1	+4.2
Fund Total	+6.8	+7.1	-0.3

Alliance Bernstein and Capital International, the global equity managers both underperformed their benchmarks. Performance for the Legal & General Investment Management (LGIM) mandates and BlackRock are close to the benchmark. Blackstone, Mirabaud, Morley and Standard Life outperformed their benchmarks.

Each year, the WM Company prepares a detailed analysis of the performance of the Fund in the preceding year coinciding with the WM Company's Annual Review of local authority pension funds. Copies of the WM Performance Commentary for Buckinghamshire County Council and the WM Annual Review UK Local Authority 2006/07 are enclosed with this report. Louis Hill of the WM Company will make a presentation to the meeting.

Market Background

In 2006/07, UK pension funds posted positive returns for the fourth year running. Overall, the average WM All Funds universe, which includes all UK pension funds, increased by 7.0% over the 12-month period. The WM local authority universe increased by 7.0% as shown in Table 2 below. The table also provides a breakdown of returns by sector for the past five years. Property has performed the best over the five-year period.

Table 2 – Annual Returns 2002/03 to 2006/07

	2002/03 %	2003/04 %	2004/05 %	2005/06 %	2006/07 %	2002/03 to 2006/07 %
UK Equities	-30.3	+32.2	+15.6	+27.0	+10.7	+8.4
Overseas Equities	-30.0	+33.0	+9.6	+37.4	+3.6	+7.7
- North America	-32.9	+16.6	+4.0	+24.4	-2.9	-0.4
- Continental Europe	-33.6	+34.7	+18.1	+37.2	+10.9	+9.9
- Japan	-25.8	+44.6	-3.9	+49.0	-10.8	+6.5
- Pacific	-23.4	+38.7	+15.9	+36.8	+17.3	+14.6
- Other International	-28.0	+44.7	+11.7	+53.8	+4.7	+13.4
UK Bonds	+11.5	+3.6	+5.8	+8.3	+0.9	+5.9
Overseas Bonds	+14.9	-0.8	+5.2	+6.2	-3.1	+4.3
Index-Linked	+10.9	+6.3	+5.6	+8.0	+2.7	+6.6
Cash	+3.8	+4.2	+4.8	+6.1	+4.2	+4.6
Other Investments	-10.4	+5.1	+11.5	+25.6	+7.8	+7.3
Property	+10.2	+12.7	+18.2	+21.4	+16.2	+15.6
Total Assets	-19.5	+23.4	+11.7	+24.9	+7.0	+8.2

Buckinghamshire Pension Fund's Performance in 2006/07

The Fund achieved an overall return of +6.8% in 2006/07, -0.2% below the WM local authority average of +7.0%. Overall in 2006/07, the Fund ranked in the 55th percentile. In 2005/06 the Fund ranked in the 22nd percentile and in 2004/05 in the 86th percentile.

The relative performance of the Fund can be attributed both to the weighting of the various categories of investments (asset allocation) and to the choice of stocks within those categories (stock selection). The Fund's asset allocation had a negative impact, decreasing return expectations by 0.2%. Table 3 shows the asset allocation at the start and end of 2006/07 for the BCC Fund and the WM local authority average.

Table 3 – Asset allocation 2006/07

	Fund % 1 Apr 2006	Fund % 31 Mar 2007	WM local authority % 1 Apr 2006	WM local authority % 31 Mar 2007
UK Equities	35.7	33.3	39.1	37.8
<u>Overseas Equities</u>	35.0	34.8	31.4	31.6
- North America	9.6	12.1	8.4	8.3
- Continental Europe	13.0	11.3	10.2	10.3
- Far East	8.8	6.9	8.0	7.3
- Other	3.6	4.5	4.8	5.7
UK Bonds	14.1	15.3	9.6	10.2
Overseas Bonds	0.4	0.5	2.7	2.1
UK Index-Linked	3.5	2.7	4.4	4.4
Cash	1.8	1.5	3.8	3.5
Other Investments	2.7	3.6	1.6	2.3
Property	6.7	8.4	7.3	8.0
Total	100.0	100.0	100.0	100.0

Stock selection reduced the overall return by 0.1%. Table 4 sets out the annual returns by investment category for the individual managers.

Table 4 – Annual Returns 2006/07

	Alliance Bernstein %	Black Rock %	Black stone %	Capital %	LGIM Passive %	LGIM Active %	Mirabaud %	Morley %	Standard Life %
UK Equities	+16.7	-	-	+6.0	+11.1	-	+11.7	-	+15.8
<u>Overseas Equities</u>									
- North America	-6.2	-	-	-7.7	-0.8	-	-	-	-
- Continental Europe	+4.3	-	-	+9.8	+12.3	-	-	-	-
- Japan	-14.3	-	-	-7.6	-9.8	-	-	-	-
- Pacific	+10.6	-	-	+19.8	+20.5	-	-	-	-
- Other	+2.0	-	-	+9.2	+9.4	-	-	-	-
UK Bonds	-	-	-	-	+0.9	+0.9	-	-	-
Overseas Bonds	-	-	-	-	-	-1.5	-	-	-
UK Index-Linked	-	-	-	-	+3.0	+3.0	-	-	-
Property	-	-	-	-	-	-	-	+19.4	-
Absolute Return	-	+4.7	-	-	-	-	-	-	-
Hedge Fund of Funds	-	-	+9.6	-	-	-	-	-	-
Cash	-	-	-	+1.7	-	-	-	-	-
Total Assets	-2.4			+3.5	+7.4	+1.3	+11.7	+19.4	+15.8

Long Term Performance

The WM Company has monitored the performance of the BCC Fund for over ten years. Table 5 illustrates the relative performance of the fund over ten, five and three year periods.

Table 5 – Investment Performance

	10 years %	5 years %	3 years %
WM local authority Average	+7.7	+8.2	+14.3
BCC Fund	+6.1	+7.2	+14.0
Relative	-1.5	-0.9	-0.2
Percentile	95	81	51

Conclusion

Alliance Bernstein and Capital International, the global equity managers both underperformed their benchmarks by –4.8% and –2.2% respectively. Performance for the Legal & General Investment Management (LGIM) mandates and BlackRock are close to the benchmark. Blackstone, Mirabaud, Morley and Standard Life outperformed their benchmarks by +4.4%, 0.3%, 2.4% and 4.2% respectively.

Over the three years 2004/05 to 2006/07 the Fund underperformed against the WM local authority average by -0.2%.

Background Papers

WM Annual Performance Review 2006/07 for Buckinghamshire County Council
WM Annual Review UK Local Authority 2006/07.

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.