



Report to Pension Fund Committee

Title: Fund Managers' Performance

Date: 29 May 2008

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Electoral Divisions Affected: n/a

Portfolio Areas Affected: None

Summary

To present the performance of the Pension Fund's managers for the first quarter of 2008.

Recommendation

The Committee is asked to note the report and comment as appropriate.

A. Main issues arising

Fund Value and Asset Allocation

The market value of the Fund decreased from £1,284m to £1,207m during the three months ending 31 March 2008. Table 1 below shows the asset allocation, the distribution of investments across categories of assets, such as cash, equities and bonds:

TABLE 1				
Asset Allocation by Class	31 Dec 2007		31 Mar 2008	
	£m	£m	£m	£m
Equities				
UK		404		363
Overseas		447		404
North America	163		146	
Europe (ex UK)	149		139	
Japan	53		50	
Developed Pacific (ex Japan)	23		20	
Emerging Markets	59		49	
Bonds		234		235
Fixed Interest Gilts	193		195	
UK Index-Linked Gilts	41		40	
Property		92		99
Private Equity		1		5
Absolute Return Funds		61		60
Cash		45		41
		1,284		1,207

Table 2 overleaf shows how the Fund's assets as at 31 March 2008 varied from the planned allocation, the percentages change each quarter since the different asset classes generate different returns.

Equities performance in the previous quarter has resulted in the value of UK and global equities as at 31 March falling below the planned allocation by 1.4% and 1.8% respectively.

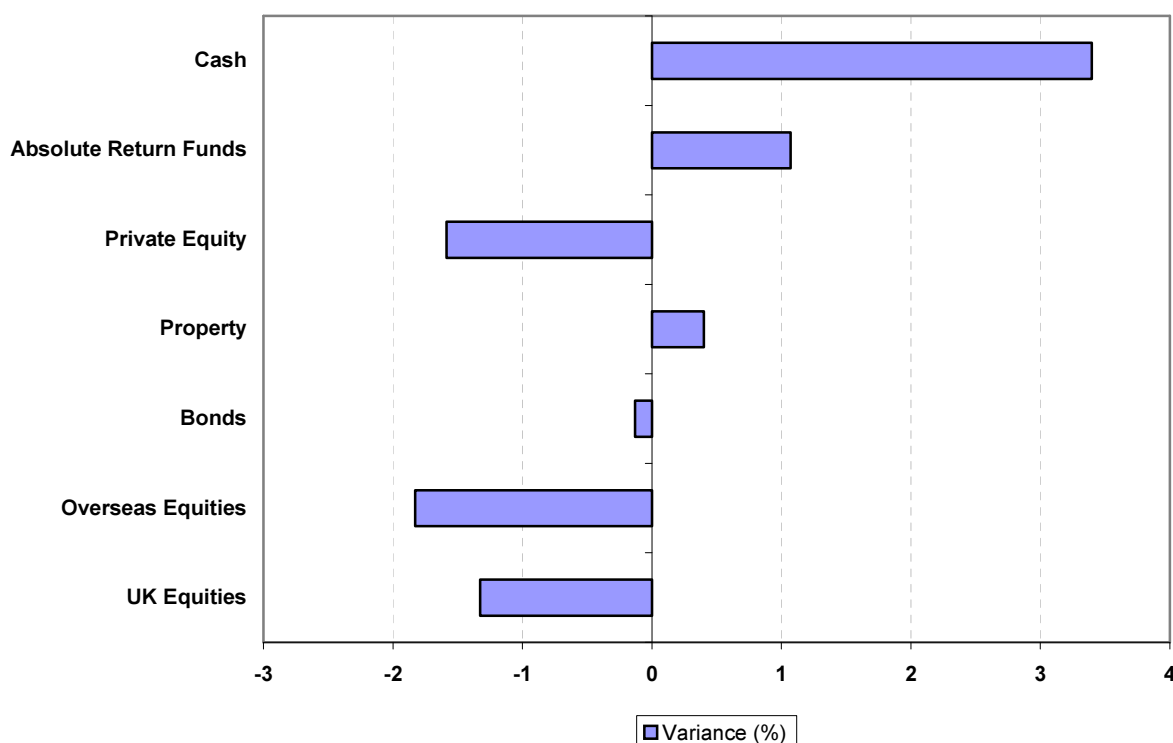
Pension Fund cash exceeds the asset allocation by 3.5% since employee and employer contributions exceed the cost of benefits and administration; following the Pension Fund Committee's decision in 2007 the cash held at 31 March 2008 includes cash allocated to Morley Fund Management, the property manager and other cash balances held by the fund managers for cash flow purposes. Morley is investing the cash on behalf of the Pension Fund until investment opportunities in European property are identified.

The 2% investment in private equity fund of funds, managed by Pantheon Private Equity, will be staggered over the next few years when investment opportunities arise and Pantheon calls on the cash from the Fund; in the meantime the Committee has agreed that up to an additional 2% has been allocated to UK equities.

Asset Class	Asset Allocation as at 31 Mar 2008 %	Strategic Asset Allocation %	Variance From Strategic Allocation %
Equities			
UK	30.0	31.4	-1.4
Overseas	33.5	35.3	-1.8
Bonds	19.5	19.6	-0.1
Property	8.2	7.8	0.4
Private Equity	0.4	2.0	-1.6
Absolute Return Funds	5.0	3.9	1.1
Cash	3.4	0.0	3.4
	100.0	100.0	0.0

Graph 1 shows the percentage difference of the Fund's assets as at 31 March 2008 compared to the investment strategy.

Graph 1 - Variance from Strategic Asset Allocation



The value of the Fund and the mandate managed by each fund manager at 31 December 2007 and 31 March 2008 are shown in Table 3 below:

Fund Manager	Mandate	31 Dec 2007 £m	31 Mar 2008 £m	%
Alliance Bernstein	Less constrained global equities	112	96	8
Blackrock	Cash / inflation plus	22	21	2
Blackstone	Hedge fund of funds	40	39	3
Capital International	Global equities	126	115	10
LGIM*	Passive global equities and bonds	439	404	34
LGIM*	Bonds	184	185	15
Mirabaud	UK equities	141	127	11
Morley	Property fund of funds	115	109	9
Pantheon	Private Equity	1	5	0
Standard Life	Less constrained UK equities	99	90	7
Pension Fund	Cash	5	16	0
Total		1,284	1,207	100

*LGIM – Legal and General Investment Management

Fund Managers Quarterly Performance to 31 March 2008

The combined Fund achieved a gross return of –6.8% compared to its benchmark return of -6.6%, an underperformance of 0.2% for the quarter to 31 March 2008. Table 4 below shows the fund managers' net performance compared to the benchmark:

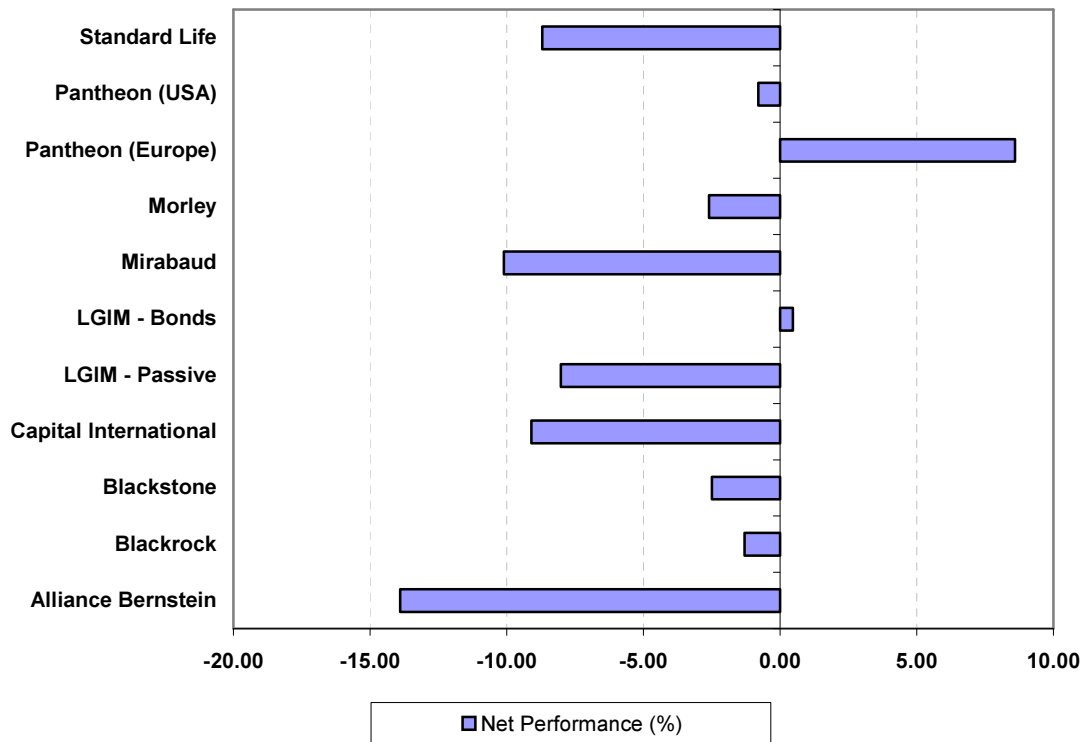
Fund Manager	Mandate	Net Performance %	Benchmark %	Net Relative Return %
Alliance Bernstein	Less constrained global equities	-13.9	-8.8	-5.1
Blackrock	Cash / inflation plus	-1.3	0.6	-1.9
Blackstone	Hedge fund of funds	-2.5	1.3	-3.8
Capital International	Global equities	-9.1	-9.1	0.0
LGIM	Passive global equities & bonds	-8.0	-8.0	0.0
LGIM	Bonds	0.5	0.2	0.3
Mirabaud	UK equities	-10.0	-9.9	-0.2
Morley	Property fund of funds	-2.6	-3.8	1.2
Pantheon (Europe)	Private Equity Fund of Funds	8.6	-8.5	17.1
Pantheon (USA)	Private Equity Fund of Funds	-0.8	-9.4	8.6
Standard Life	Less constrained UK equities	-8.7	-9.9	1.2
			-6.6	

For the quarter to 31 March 2008 LGIM – bonds, Morley, Pantheon and Standard Life outperformed their benchmarks. This is the first quarter that a benchmark has been reported for Pantheon; the performance should be interpreted cautiously since returns in the early years of a private equity fund's life are not generally meaningful due to accepted industry valuation standards. Alliance Bernstein, BlackRock, Blackstone, and Mirabaud, have

underperformed their benchmarks. Capital International and LGIM – passive have matched their benchmarks.

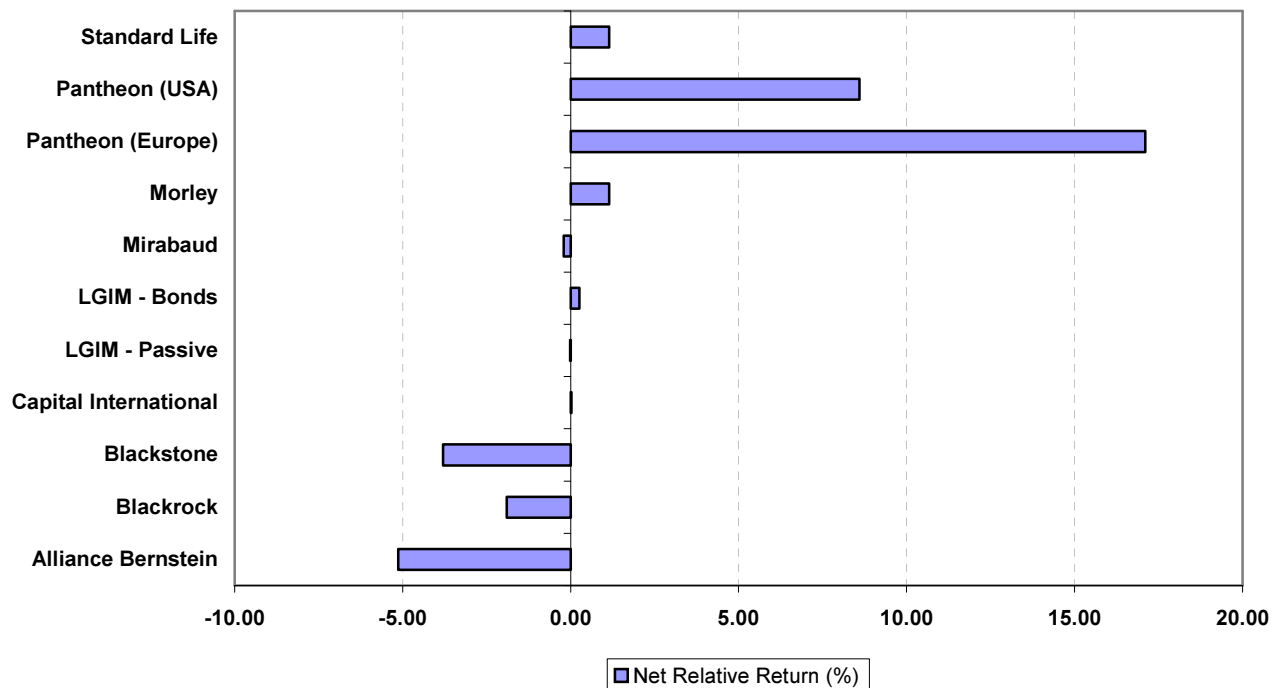
Graph 2 - Fund Managers' Net Performance for the Quarter

Fund managers' actual performance after fees.



Graph 3 - Fund Managers' Net Relative Return for the Quarter

Fund managers' performance after fees compared to their benchmark

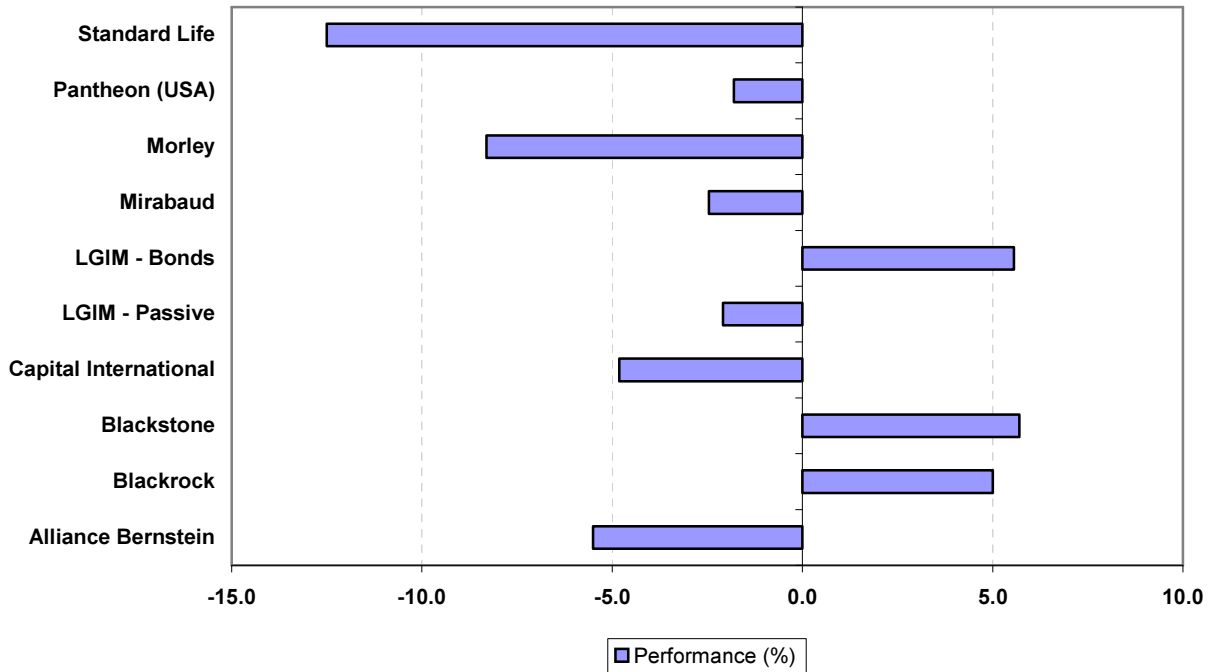


Fund Managers Annual Performance to 31 March 2008

In the year to 31 March 2008 the Fund matched its benchmark, the annual return gross of fees is -2.4%.

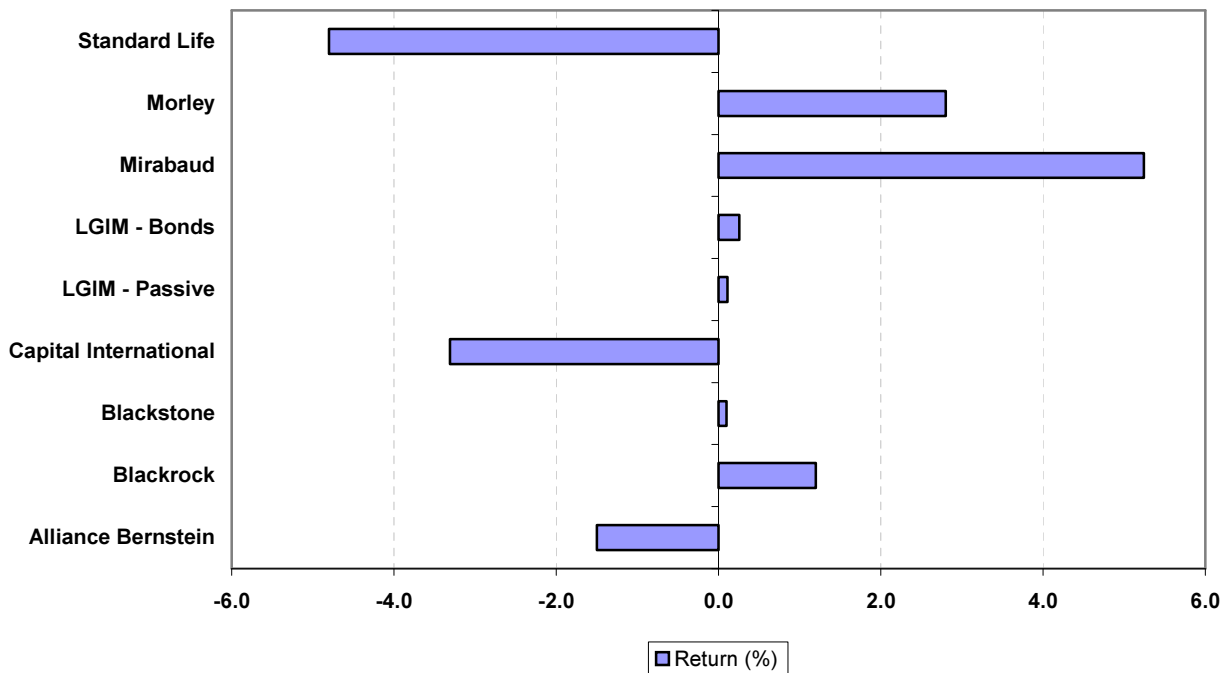
Graph 4 - Fund Managers' Net Annual Performance

Most mandates generated a negative return for the year reflecting the downturn in the equity and commercial property markets. LGIM –bonds, Blackstone and BlackRock generated positive annual returns.



Graph 5 - Fund Managers' Net Annual Relative Return

Graph 5 shows the fund managers' performance after fees over the previous 12 months against their benchmark. Morley, Mirabaud, and BlackRock have outperformed their benchmarks. Standard Life, Capital International and Alliance Bernstein have underperformed their benchmarks. LGIM – passive which tracks the changes in the equity and bond markets has matched its benchmark. LGIM – bonds and Blackstone have generated annual returns similar to their benchmarks.

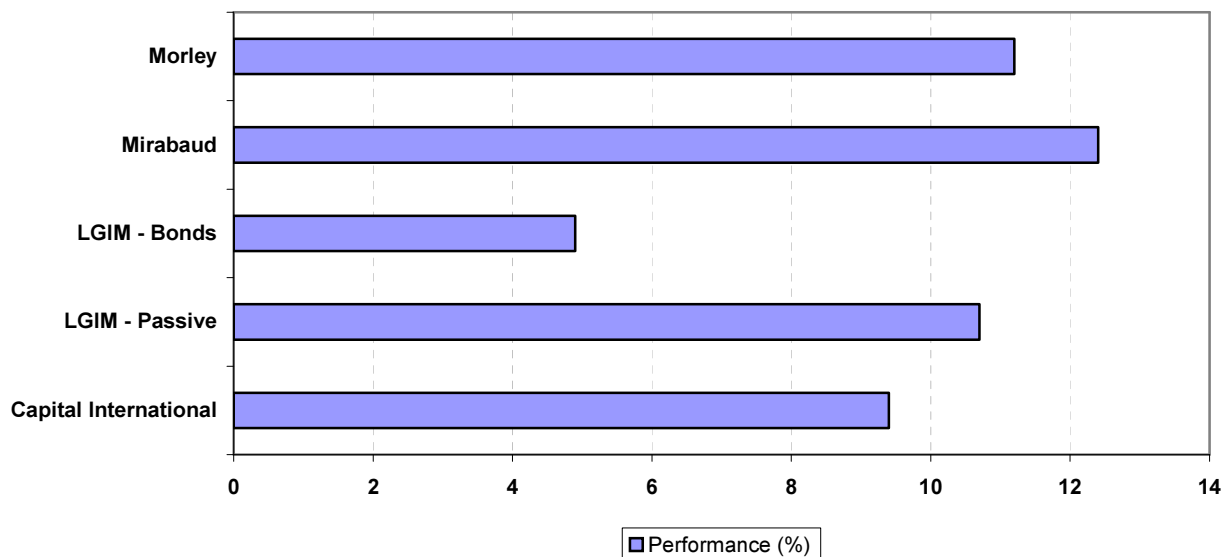


Fund Managers Three Year Performance to 31 March 2008

The Fund achieved a return gross of fees of 9.6% per annum in the 3 years to 31 March 2008 outperforming its benchmark by 0.2% for that period.

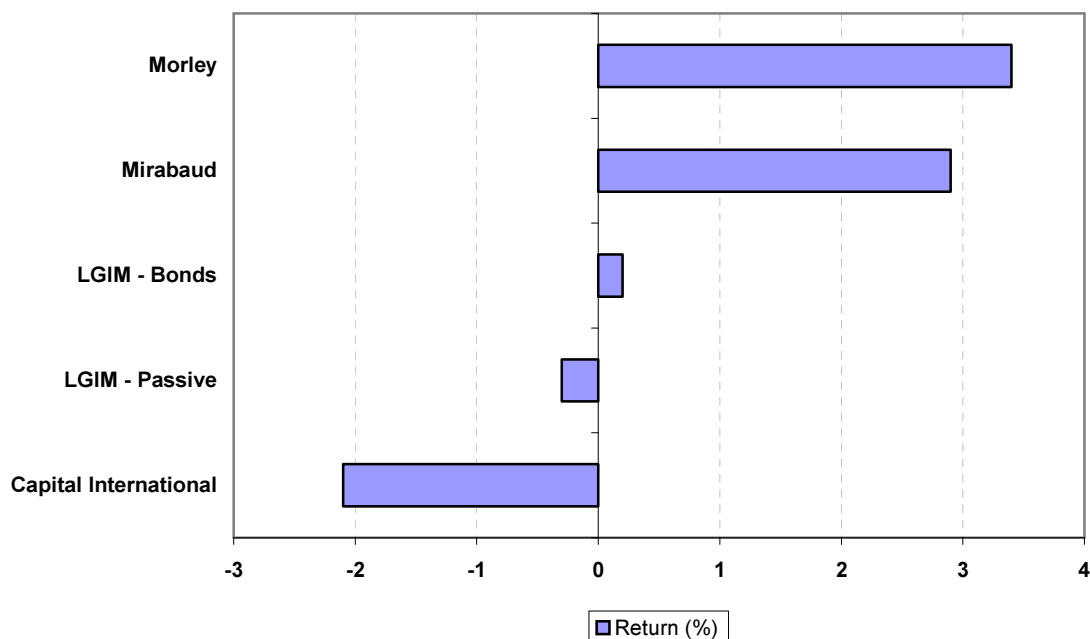
Graph 6 - Fund Managers' 3 Year Performance

Graph 6 shows the fund managers' gross actual performance over the previous three years. Morley, Mirabaud, LGIM – bonds, LGIM – passive and Capital International have been managing funds for 3 years.



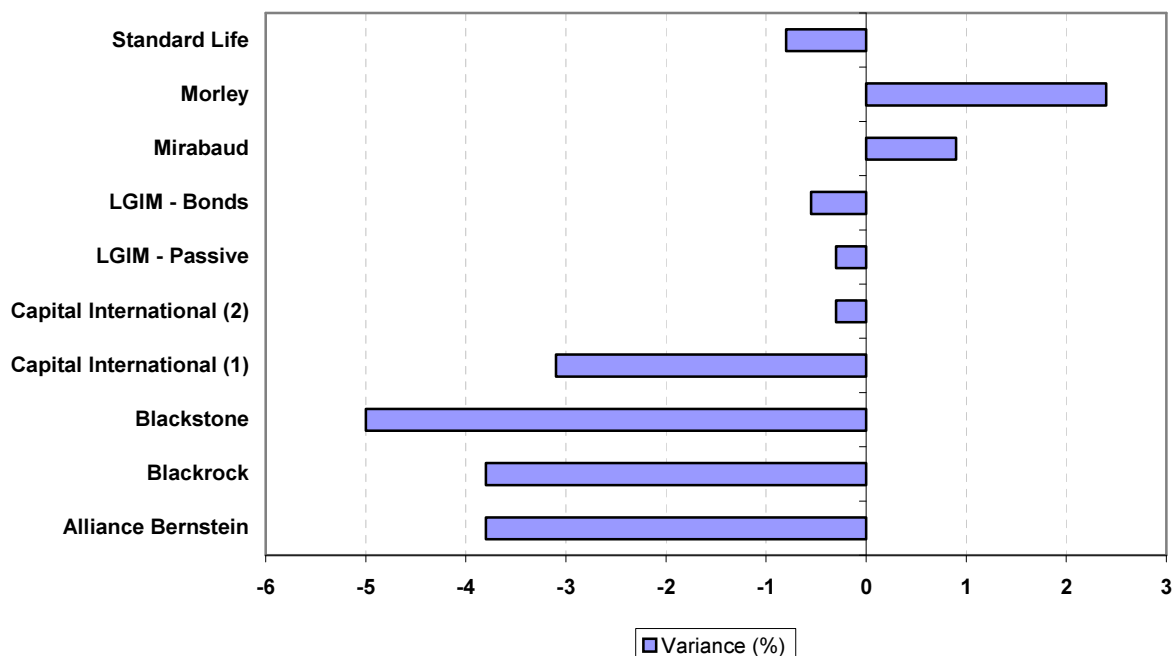
Graph 7 - Fund Managers' 3 Year Relative Return

Graph 7 shows the fund managers' gross performance over the previous three years against their benchmark, three years is a pension industry standard timescale for performance comparisons. Over the three years Morley has outperformed its benchmark of 11.2% by 3.4%, Mirabaud has outperformed its benchmark of 12.4% by 2.9%, LGIM – active bonds has outperformed its 4.9% benchmark by 0.2%, LGIM – passive has underperformed its benchmark of 10.7% by 0.3% and Capital International has underperformed its benchmark of 9.4% by 2.1%.



Graph 8 - Fund Managers' Performance Compared to Fund Manager Objectives

Graph 8 shows the fund managers' performance over the previous three years compared to their objectives. Morley and Mirabaud have achieved their objectives over the 3 years. No other fund managers have achieved their objectives as at 31 March 2008.



- (1) Relates to the out-performance objective (see fund manager objectives);
 (2) Relates to the limiting under-performance objective (see fund manager objectives).

Notes to Graph 8

- BlackRock and Blackstone performances are shown for one year, the mandates have only been in place since Quarter 4 2005 and 3 year performance data is not yet available. The fund manager objectives for Alliance Bernstein and Standard Life are compared against performance since inception in October 2005.

Fund Manager Objectives

The objectives for each fund manager are as follows:

- Alliance Bernstein: to achieve a return 3% per annum above the benchmark return over full market cycles, gross of fees.
- Blackrock: RPI +5% net of fees per annum.
- Blackstone: cash plus 5% over a full market cycle.
- Capital International: to out-perform its benchmark by 1% per annum over a three year rolling period and limit under-performance to 3.0% in any twelve month period.
- Legal and General Investment Management (LGIM) – Passive: to match its benchmark return.
- LGIM – active bonds: to out-perform its benchmark by 0.75% per annum over a three year rolling period.
- Mirabaud – UK Equities: to out-perform its benchmark by 2% per annum over a three year rolling period.
- Morley Fund Management – Property: to out-perform its benchmark by 1% per annum over a three year rolling period.
- Standard Life – UK Equities: to exceed the benchmark by 3% per annum gross of all investment management fees over rolling 3 year periods.

Quarter 1 2008 Fund Performance in the Local Authority League Tables

The Buckinghamshire Pension Fund was ranked in the 52nd percentile for the first quarter of 2008 in the WM local authority universe. In the year to 31 March 2008 the Fund was ranked 36th, over an average of 3 years to 31 March 2008 the Fund was ranked at 28th. The Fund's 5 year average is 23rd percentile, this is the first time that the Fund has been placed in the top quartile over 5 years. The quarterly and annual performance recorded each quarter can be volatile; the three years and five years percentiles demonstrate the improving trend in the Fund's performance. Table 5 below shows the trend in the Funds quarterly, annual, 3 year and 5 year performance each quarter since Q1 2006.

	2006				2007				2008
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Quarterly	35	57	51	26	48	63	25	23	52
Annual	21	18	30	41	55	61	40	30	36
Three Years	40	41	56	50	51	56	38	34	28
Five Years	81	84	66	77	81	63	30	38	23

C. Resource Implications

Not applicable.

D. Legal Implications

None.

E. Other implications / issues

The underlying performance issues will be addressed when the Fund's revised Investment Strategy is implemented over the following months.

F. Feedback from consultation and Local Member Views

Not applicable.

G. Communication Issues

A performance update is reported six monthly to the Pension Fund Consultative Group and annually to the Pension Fund's employers. Members are asked to consider whether to communicate the good news about the Fund's medium term performance to a wider audience.

H. Progress Monitoring

To be reviewed by Committee quarterly.

I. Background Papers

None.

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.