



Report to Pension Fund Consultative Group

Title: Fund Managers' Performance

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Author: Assistant Head of Finance

Contact Officer: Clive Palfreyman 01296 382280

Summary

To present the performance of the Pension Fund's managers for the second quarter of 2008 and the annual mini-valuation by the Actuary.

Recommendation

The Group 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 £1,207m to £1,185m during the three months ending 30 June 2008. Table 1 below shows the asset allocation, the distribution of investments across categories of assets, such as cash, equities and bonds:

Asset Allocation by Class	31 Mar 2008		30 June 2008	
Equities	£m	£m	£m	£m
UK		363		364
Overseas		404		387
North America	146		142	
Europe (ex UK)	139		130	
Japan	50		50	
Developed Pacific (ex Japan)	20		21	
Emerging Markets	49		44	
Bonds		235		230
Fixed Interest Gilts	195		188	
UK Index-Linked Gilts	40		42	
Property		99		94
Private Equity		5		8
Absolute Return Funds		60		76
Cash		41		26
		1,207		1,185

- Table 2 below shows how the Fund's assets as at 30 June 2008 varied from the planned allocation, the percentages change each quarter as the different asset classes generate different returns.

Equities performance in the previous six months has resulted in the value of UK and global equities as at falling below the planned allocation by 0.7% and 2.6% respectively.

Pension Fund cash exceeds the asset allocation mainly due to cash balances held by the fund managers for cash flow purposes. As reported previously Morley is investing

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.

The allocation to absolute returns exceeds the strategic asset allocation following the Committee's decision to incrementally increase the proportion of the Fund managed by Blackstone from 2% to 5% using surplus cash balances.

Asset Class	Asset Allocation as at 30 June 2008 %	Strategic Asset Allocation %	Variance From Strategic Allocation %
Equities:			
UK	30.7	31.4	-0.7
Overseas	32.7	35.3	-2.6
Bonds	19.4	19.6	-0.2
Property	7.9	7.8	0.1
Private Equity	0.7	2.0	-1.3
Absolute Return Funds	6.4	3.9	2.5
Cash	2.2	0.0	2.2
	100.0	100.0	0.0

3. The value of the Fund and the mandate managed by each fund manager at 31 March 2008 and 30 June 2008 are shown in Table 3 below:

Fund Manager	Mandate	31 Mar 2008 £m	30 June 2008 £m	%
Alliance Bernstein	Less constrained global equities	96	95	8
Blackrock	Cash / inflation plus	21	21	2
Blackstone	Hedge fund of funds	39	55	5
Capital International	Global equities	115	111	9
LGIM*	Passive global equities and bonds	404	394	33
LGIM*	Bonds	185	180	15
Mirabaud	UK equities	127	125	10
Morley	Property fund of funds	109	105	9
Pantheon	Private Equity	5	8	1
Standard Life	Less constrained UK equities	90	91	8
Pension Fund	Cash	16	0	0
Total		1,207	1,185	100

*LGIM – Legal and General Investment Management

Fund Managers Quarterly Performance to 30 June 2008

4. The combined Fund achieved a gross return of –2.1% compared to its benchmark return of -1.7%, an underperformance of 0.4% for the quarter to 30 June 2008. Table 4 overleaf 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	-1.2	-1.6	0.4
Blackrock	Cash / inflation plus	0.5	2.2	-1.7
Blackstone	Hedge fund of funds	2.7	1.3	1.4
Capital International	Global equities	-3.7	-1.8	-1.9
LGIM	Passive global equities & bonds	-2.0	-2.0	0.0
LGIM	Bonds	-1.9	-1.7	-0.2
Mirabaud	UK equities	-2.2	-1.4	-0.8
Morley	Property fund of funds	-4.9	-3.2	-1.7
Pantheon (Europe)	Private Equity Fund of Funds	-11.2	-3.6	17.1
Pantheon (USA)	Private Equity Fund of Funds	-4.4	-1.8	1.0
Standard Life	Less constrained UK equities	0.4	-1.4	1.8
			-1.7	

5. For the quarter to 31 March 2008 LGIM – Alliance Bernstein, Blackstone, Pantheon (Europe), Pantheon (USA) and Standard Life outperformed their benchmarks. The performance for the private equity fund of funds managed by Pantheon 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. BlackRock, Capital International Mirabaud and Morley have underperformed their benchmarks. The LGIM – passive and active bond mandates have performed close to their benchmarks. During the period, officers have met with Alliance Bernstein, Morley, Mirabaud and Standard Life.

Quarter 2 2008 Fund Performance in the Local Authority League Tables

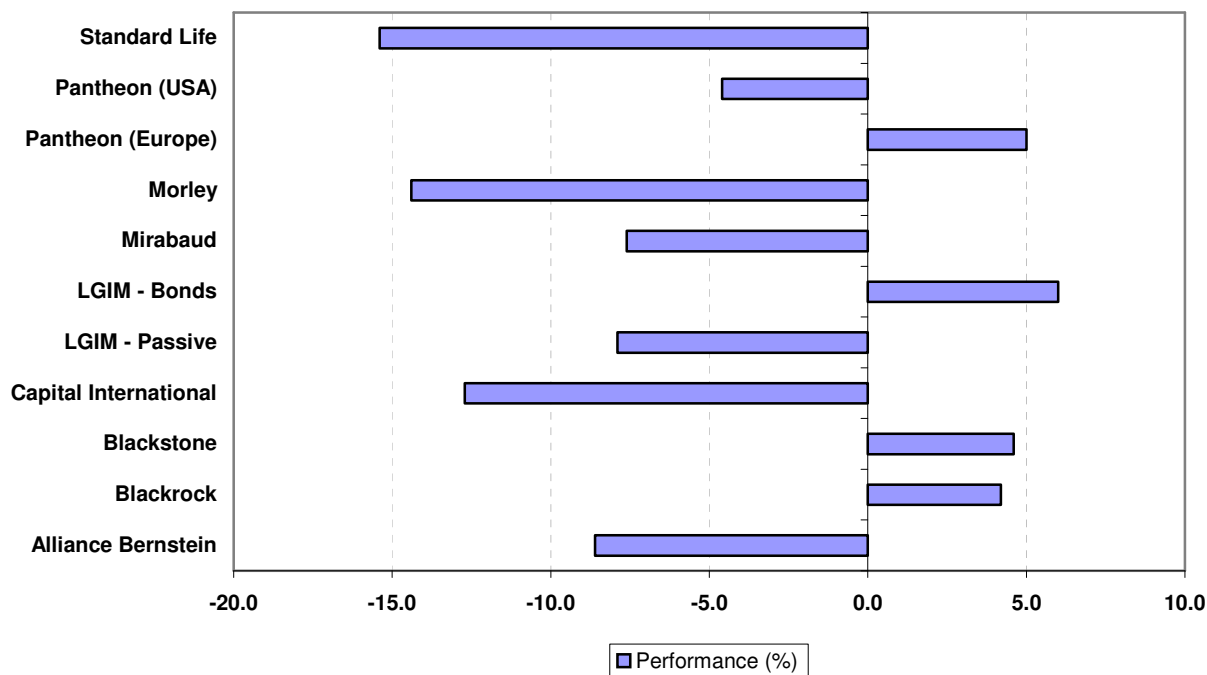
6. The Buckinghamshire Pension Fund was ranked in the 63rd percentile for the second quarter of 2008 in the WM local authority universe. In the year to 30 June 2008 the Fund was ranked 45th, over an average of 3 years to 30 June 2008 the Fund was ranked at 29th. The Fund's 5 year average is 34th percentile. 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	Q2
Quarterly	35	57	51	26	48	63	25	23	52	63
Annual	21	18	30	41	55	61	40	30	36	45
Three Years	40	41	56	50	51	56	38	34	28	29
Five Years	81	84	66	77	81	63	30	38	23	34

Fund Managers Annual Performance to 30 June 2008

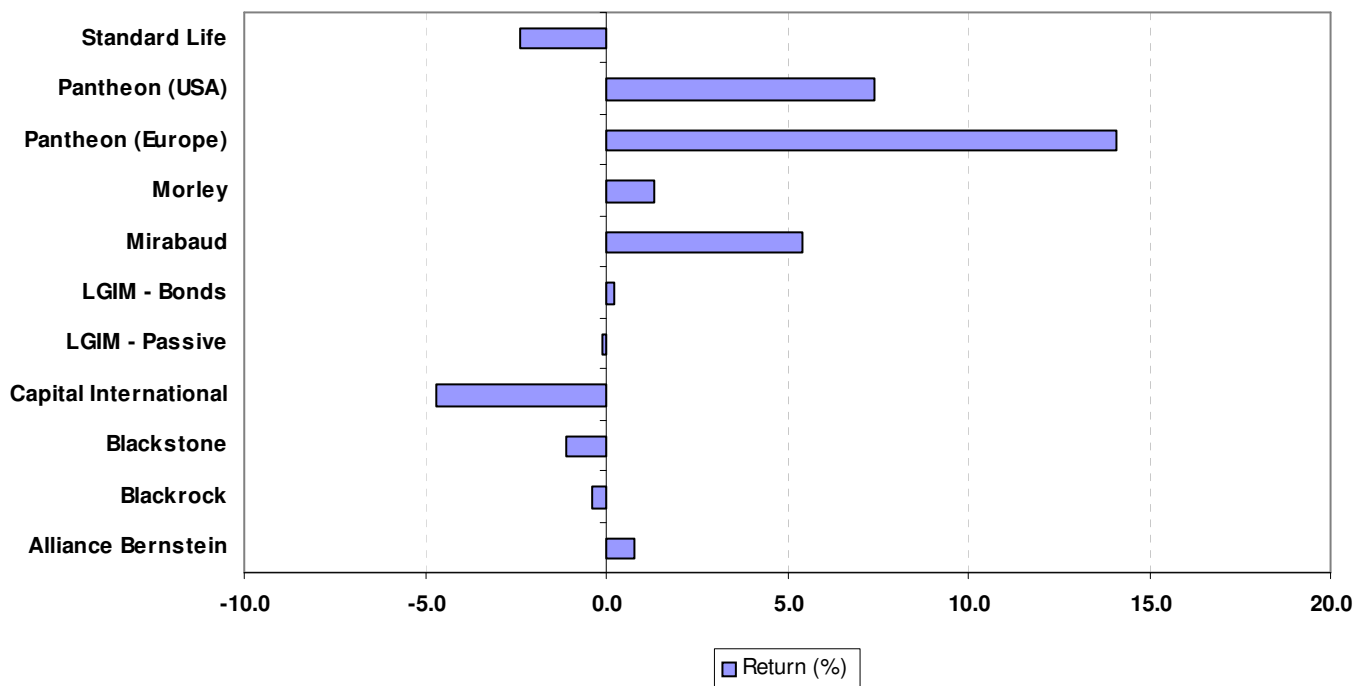
7. In the year to 30 June 2008 the combined Fund achieved a gross return of -7.2% compared to its benchmark return of -7.0% , an underperformance of 0.2% . Most mandates generated a negative return for the year reflecting the downturn in the equity and commercial property markets. Pantheon(Europe), LGIM –bonds, Blackstone and BlackRock generated positive annual returns.

Graph 1 - Fund Managers' Net Annual Performance



8. Graph 2 (overleaf) shows the fund managers' performance after fees over the previous 12 months against their benchmark. Morley, Mirabaud, BlackRock and Alliance Bernstein have outperformed their benchmarks. Standard Life, Capital International, Blackstone and BlackRock have underperformed their benchmarks. LGIM – passive which tracks the changes in the equity and bond markets has matched its benchmark and LGIM – bonds mandate has generated an annual return similar to its benchmark.

Graph 2 - Fund Managers' Net Annual Relative Return

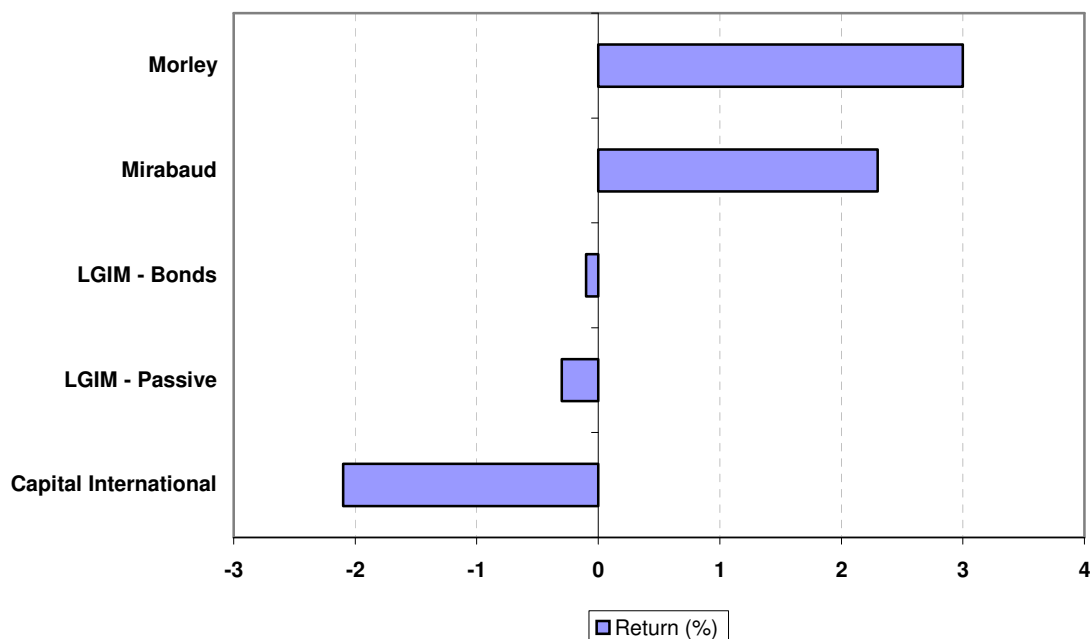


Fund Managers Three Year Performance to 30 June 2008

9. The Fund achieved a return gross of fees of 7.2% per annum in the 3 years to 30 June 2008 outperforming its benchmark by 0.3% for that period.

10. Graph 3 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 5.1% by 3.0%, Mirabaud has outperformed its benchmark of 7.2% by 2.3%, LGIM – active bonds has matched its 2.6% benchmark, LGIM – passive has underperformed its benchmark of 8.3% by 0.3% and Capital International has underperformed its benchmark of 11.8% by 1.6%.

Graph 3 - Fund Managers' 3 Year Relative Return



11. Summary

Members should note that the Alliance Bernstein mandate has underperformed by 1.2% since inception, although the mandate has outperformed by 0.8% in the year to 30 June 2008. The Standard Life mandate has underperformed by 2.4% in the year to 30 June 2008; however, the mandate has outperformed by 2.6% since inception. Capital International has underperformed by 4.7% in the year to 30 June 2008 and has underperformed by 2.3% over the 3 year time horizon. No fund manager has achieved four consecutive quarters of underperformance.

Actuarial Valuation Update

12. The recent triennial valuation as at 31 March 2007 showed an improvement in the funding level to 81% with an average required employer contribution of 19.2%. Members have requested an annual update on the actuarial valuation position. The Fund's Actuary Barnett Waddingham has estimated that the funding level as at 31 March 2008 is 80% and the average required employer contribution would 18.9% of payroll (although we are not permitted to change employer contributions between triennial valuations other than in exceptional circumstances). To determine the current financial position, the Actuary projects forward the last published triennial valuation results allowing for investment returns achieved, contributions paid into the Fund, benefits paid from the Fund and changes in market conditions such as bond yields and inflation expectations.
13. We anticipate that many other LGPS funds will experience a more significant reduction in the funding level and therefore our outturn is positive in this context. However, our Actuary applies a smoothing principle to ensure that valuations undertaken during periods of market volatility report a more representative outcome of the longer term funding position. Officers will be meeting the Actuary to discuss the detail of this.

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 of the Pension Fund Committee are advised of quarterly performance prior to Committee meetings through the confidential Member newsletter and then formally at subsequent meetings.

H. Progress Monitoring

To be reviewed by Pension Fund Committee quarterly.

I. Background Papers

None.