



Report to Pension Fund Consultative Group

Title: Fund Managers' Performance

Date: 19 March 2009

Date Decision can Be implemented: 19 March 2009

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Electoral Divisions Affected: n/a

Portfolio Areas Affected: None

Purpose of Report

To present the performance of the Pension Fund's fund managers for the fourth quarter of 2008. Most mandates generated a negative return for the year reflecting the downturn in the equity and commercial property markets, as at 31 December 2008 the market value of the Fund was £1,074m.

Summary

Pantheon (Europe V), Pantheon (USA VII) and LGIM – bonds generated positive annual returns. PFCG Members should note that the Alliance Bernstein global equities mandate has underperformed by 17.7% in the year to date and by 7.7% in the 3 years to 31 December 2008. The BlackRock absolute return mandate has underperformed by 10.8% in the year to date and by 1.8% in the 3 year period. The Blackstone absolute return mandate has underperformed by 20.9% in the year and by 3.8% in the 3 year period. The Capital International global equity portfolio has underperformed by 2.5% in the year to 31 December 2008 and has underperformed by 3.1% over the 3 year time horizon. Aviva Investors and Mirabaud have achieved their objectives over the 3 year period. BlackRock underperformed for four consecutive quarters, no other fund manager has underperformed for four consecutive quarters.

The Pension Fund Committee finalised an updated Investment Strategy in December 2008 and a tender process is currently underway.

Recommendation

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

A. Main issues arising

Fund Value and Asset Allocation

1. The market value of the Fund decreased from £1,107m to £1,074m during the three months ending 31 December 2008. Table 1 overleaf shows the distribution of investments across categories of assets, such as cash, equities and bonds:

Asset Allocation by Class	30 Sept 2008		31 Dec 2008	
Equities	£m	£m	£m	£m
UK		313		287
Overseas		353		336
North America	141		131	
Europe (ex UK)	115		110	
Japan	45		48	
Developed Pacific (ex Japan)	18		17	
Emerging Markets	34		30	
Bonds		231		243
Fixed Interest Gilts	189		203	
UK Index-Linked Gilts	42		40	
Property		90		79
Private Equity		14		26
Absolute Return Funds		72		65
Cash		34		38
		1,107		1,074

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

Asset Class	Asset Allocation as at 31 Dec 2008 %	Strategic Asset Allocation %	Variance From Strategic Allocation %
Equities:			
UK	26.7	31.4	-4.7
Overseas	31.4	35.3	-3.9
Bonds	22.6	19.6	3.0
Property	7.3	7.8	-0.5
Private Equity	2.4	2.0	0.4
Absolute Return Funds	6.1	3.9	2.2
Cash	3.5	0.0	3.5
	100.0	100.0	0.0

Bonds and equities performance in the year to 31 December 2008 has resulted in the value of bonds, UK equities and global equities differing from the planned allocation by 3.0%, -4.7% and -3.9% 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 Aviva Investors is investing cash on behalf of the Pension Fund until investment opportunities in property are identified.

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. Blackstone is currently funded at 4% of the Fund.

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

Fund Manager	Mandate	30 Sept 2008 £m	31 Dec 2008 £m	%
Alliance Bernstein	Less constrained global equities	81	73	7
Aviva Investors	Property Fund of Funds	101	90	8
Blackrock	Cash / inflation plus	20	19	2
Blackstone	Hedge fund of funds	52	46	4
Capital International	Global equities	102	99	9
LGIM*	Passive global equities and bonds	361	348	33
LGIM*	Bonds	183	193	18
Mirabaud	UK equities	112	104	10
Pantheon	Private Equity	14	26	2
Standard Life	Less constrained UK equities	78	70	7
Pension Fund	Cash	3	6	0
Total		1,107	1,074	100

*LGIM – Legal and General Investment Management

Fund Managers Quarterly Performance to 31 December 2008

4. The combined Fund achieved a gross return of –3.9% compared to its benchmark return of –4.2%, an outperformance of 0.3% for the quarter to 31 December 2008. A consolidated net performance for the total Fund is not available. Table 4 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	-9.8	-2.9	-6.9
Aviva Investors	Property fund of funds	-11.0	-13.4	2.4
BlackRock	Cash / inflation plus	-2.9	-2.5	-0.4
Blackstone	Hedge fund of funds	-10.6	0.8	-11.4
Capital International	Global equities	-2.9	-3.6	0.7
LGIM	Passive global equities & bonds	-3.4	-3.5	0.1
LGIM	Bonds	5.3	4.5	0.8
Mirabaud	UK equities	-7.2	-10.2	3.0
Pantheon (Asia V)	Private equity fund of funds	14.9	3.3	11.6
Pantheon (Europe V)	Private equity fund of funds	17.3	-5.5	22.8
Pantheon (Europe VI)	Private equity fund of funds	16.8	-5.5	22.3
Pantheon (USA VII)	Private equity fund of funds	20.5	-4.3	24.8
Pantheon (USA VIII)	Private equity fund of funds	19.6	-4.3	23.9
Standard Life	Less constrained UK equities	-11.0	-10.2	-0.8
			-4.2	

5. For the quarter to 31 December 2008 Aviva Investors, Capital International, Legal & General – passive, Legal & General – bonds, Mirabaud and the Pantheon private equity

fund of funds mandates 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. The private equity fund of funds that the Pension Fund is invested in are valued in American dollars and Euros, due to currency fluctuations the value of these funds appreciated significantly in the quarter ending 31 December 2008. Alliance Bernstein, BlackRock, Blackstone, Capital International and Standard Life have underperformed their benchmarks.

Quarter 3 2008 Fund Performance in the Local Authority League Tables

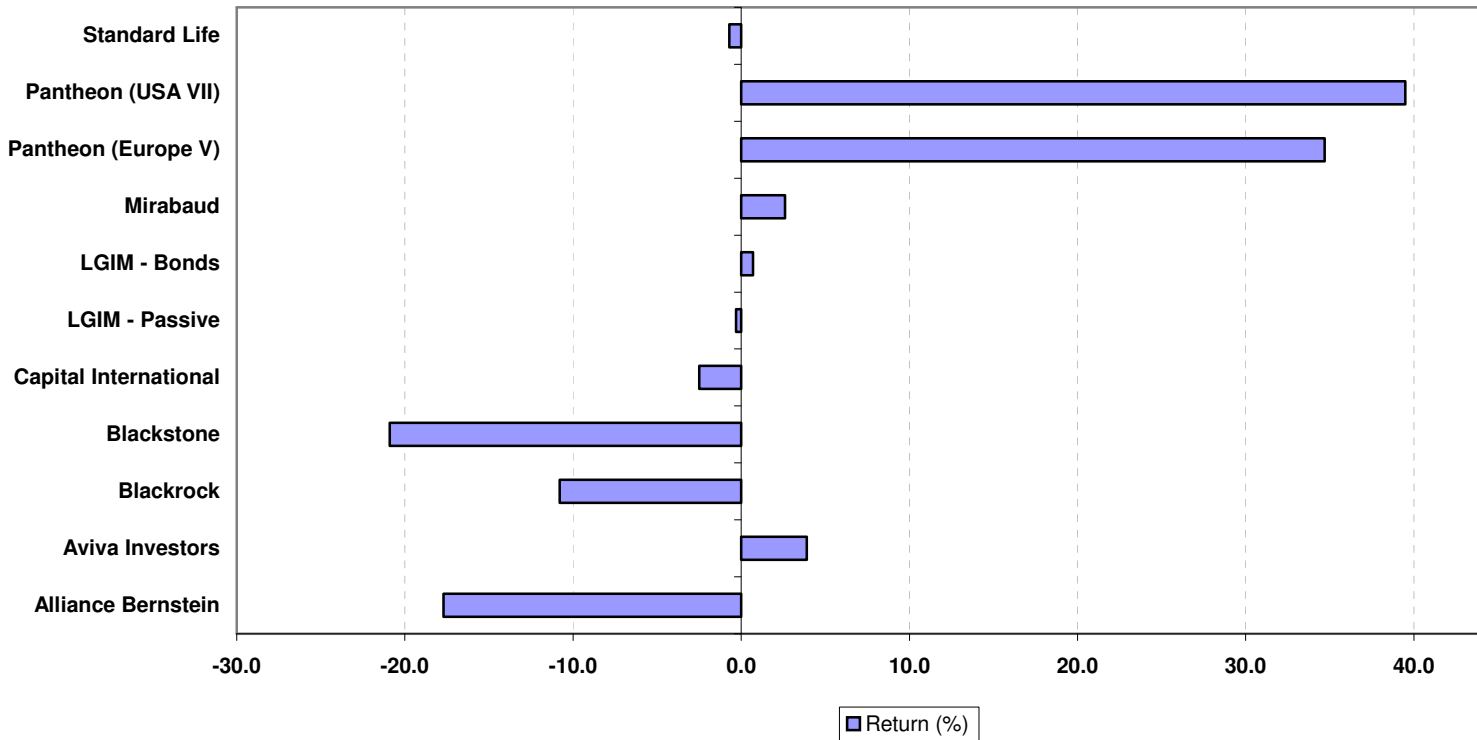
6. WM local authority universe data for the fourth quarter of 2008 is not yet available. Table 5 below shows the trend in the Fund's quarterly, annual, 3 year and 5 year performance each quarter since Q1 2006 and how the Fund is ranked compared to other local government pension funds. After achieving a ranking of 41st for the quarter, the Fund's annual ranking of 46 was comparable to the previous quarter. The three years and five years ranking of 33 and 47 respectively had reduced compared to quarter 2 2008.

	2006				2007				2008		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Quarterly	35	57	51	26	48	63	25	28	48	79	41
Annual	21	18	30	41	55	61	40	30	36	45	46
Three Years	40	41	56	50	51	56	38	34	28	29	33
Five Years	81	84	66	77	81	63	30	38	23	34	47

Fund Managers Annual Performance to 31 December 2008

7. In the year to 31 December 2008 the combined Fund achieved a gross return of -18.8% compared to its benchmark return of -18.0%, an underperformance of 0.8%. Most mandates generated a negative actual return for the year reflecting the downturn in the equity and commercial property markets. Pantheon (Europe V), Pantheon (USA VII) and LGIM – bonds generated positive annual returns. Graph 1 (overleaf) shows the fund managers' performance after fees over the previous 12 months against their benchmark. Aviva Investors, LGIM – bonds, Mirabaud, Pantheon (Europe V) and Pantheon (USA VII) have outperformed their benchmarks. Alliance Bernstein, BlackRock, Blackstone, Capital International, LGIM – passive and Standard Life have underperformed their benchmarks.

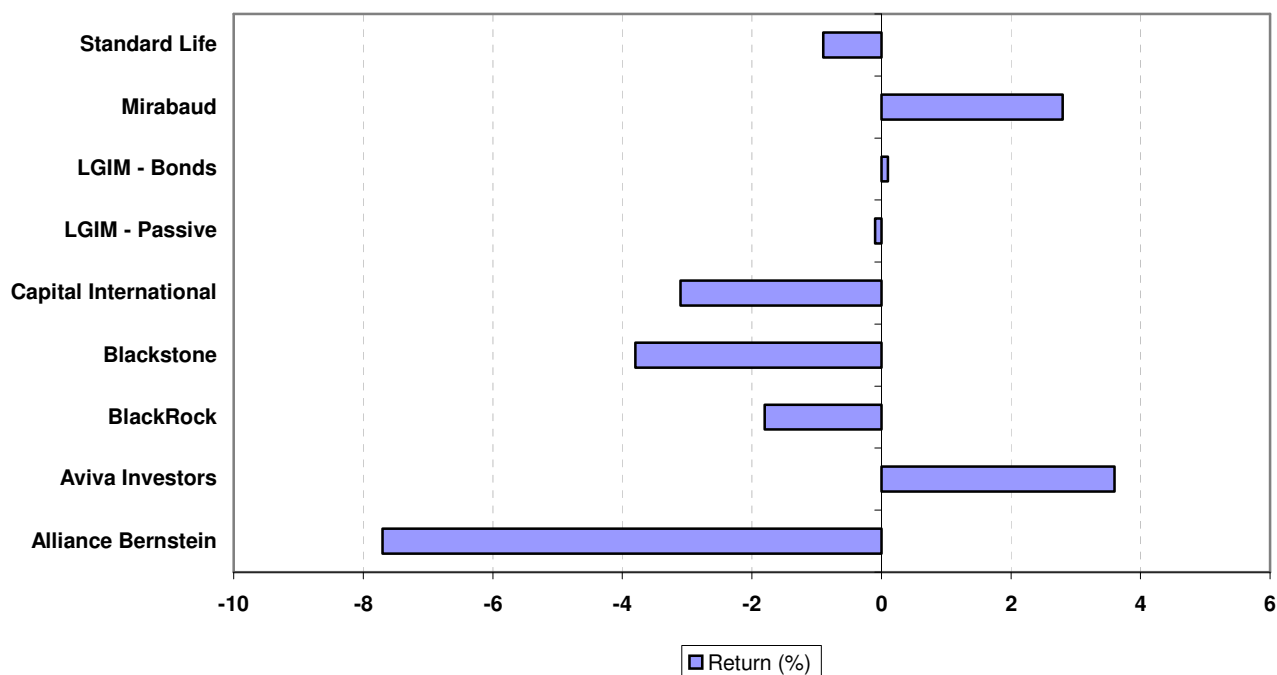
Graph 1 - Fund Managers' Net Annual Relative Return



Fund Managers Three Year Performance to 31 December 2008

8. The Fund achieved a return gross of fees of -1.3% per annum in the 3 years to 31 December 2008 underperforming its benchmark of -1.1% by 0.2% for that period. Graph 2 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 Standard Life and Mirabaud have outperformed their benchmark of -4.8% by 0.3% and 3.3% respectively, LGIM – active bonds has outperformed its 3.5% benchmark by 0.2%, LGIM – passive has matched its benchmark of -1.0%, Capital International has underperformed its benchmark of -3.1% by 2.8%, Aviva Investors has outperformed its benchmark of 1.6% by 3.8% and Alliance Bernstein has underperformed its benchmark of 1.0% by 3.2%. The Pantheon Fund of Funds are not included in the three year performance analysis since the Fund has invested with Pantheon for less than 3 years.

Graph 1 - Fund Managers' 3 Year Relative Return



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 at Committee meetings.

H. Progress Monitoring

To be reviewed by Pension Fund 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.