



# Buckinghamshire County Council

## Pension Fund Consultative Group 9 October 2009 Additional Document

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# Report to Pension Fund Consultative Group

**Title:** Fund Managers' Performance

**Date:** 9 October 2009

**Date Decision can Be implemented:** 9 October 2009

**Author:** Assistant Head of Finance

**Contact Officer:** Clive Palfreyman 01296 382280

**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 second quarter of 2009, ending 30 June 2009.

## **Summary**

Most mandates generated a negative return for the year reflecting the downturn in the equity and commercial property markets. As at 30 June 2009 the market value of the Fund was £1,069m. The Legal & General bonds mandate is the only mandate generating positive returns for the year ending 30 June 2009.

Alliance Bernstein global equities mandate has underperformed by 14.0% in the year to 30 June 2009 and by 6.8% in the 3 years to 30 June 2009. The BlackRock absolute return mandate has underperformed by -3.2% in the year to 30 June and by 0.5% in the 3 year period. The Blackstone hedge fund of funds mandate has underperformed by 13.1% in the year and by 2.6% in the 3 year period. The Capital International global equity portfolio has underperformed by 0.7% in the year to 30 June 2009 and has underperformed by 2.5% over the 3 year time horizon. Legal and General Passive and Mirabaud have achieved their objectives over the 3 year period. No fund manager has underperformed for four consecutive quarters.

## **Recommendation**

**The Committee 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 increased from £1,004m to £1,069m during the three months ending 30 June 2009. Table 1 overleaf shows the distribution of investments across categories of assets, such as cash, equities and bonds:

<b>Asset Allocation by Class</b>	<b>31 Mar 2009</b>		<b>30 June 2009</b>	
<b>Equities</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
UK		264		301
Overseas		303		323
North America	119		114	
Europe (ex UK)	92		101	
Japan	40		44	
Developed Pacific (ex Japan)	17		19	
Emerging Markets	35		45	
<b>Bonds</b>		240		242
Fixed Interest Gilts	200		200	
UK Index-Linked Gilts	40		42	
<b>Property</b>		66		61
<b>Private Equity</b>		23		30
<b>Absolute Return Funds</b>		66		75
<b>Cash</b>		42		37
		<b>1,004</b>		<b>1,069</b>

2. Table 2 below shows how the Fund's assets as at 30 June 2009 varied from the planned allocation, the percentages change each quarter as the different asset classes generate different returns.

<b>Asset Class</b>	<b>Asset Allocation as at 30 June 2009 %</b>	<b>Strategic Asset Allocation %</b>	<b>Variance From Strategic Allocation %</b>
Equities:			
UK	28.2	31.4	-3.2
Overseas	30.2	35.3	-5.1
Bonds	22.6	19.6	3.0
Property	5.7	7.8	-2.1
Private Equity	2.8	2.0	0.8
Absolute Return Funds	7.0	3.9	3.1
Cash	3.5	0.0	3.5
	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Bonds and equities performance in recent months has resulted in the value of UK equities, global equities and bonds differing from the planned allocation by -3.2%, -5.1% and 3.0% 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 in the hedge fund of funds mandate from 2% to 5% using surplus cash balances. Blackstone is currently funded at 5.1% of the Fund.

3. The value of the Fund and the mandate managed by each fund manager at 31 March 2009 and 30 June 2009 are shown in Table 3 below:

<b>Fund Manager</b>	<b>Mandate</b>	<b>31 Mar 2009 £m</b>	<b>30 June 2009 £m</b>	<b>%</b>
Alliance Bernstein	Less constrained global equities	67	69	6
Aviva Investors	Property Fund of Funds	79	74	7
Blackrock	Cash / inflation plus	19	20	2
Blackstone	Hedge fund of funds	47	54	5
Capital International	Global equities	91	95	9
LGIM*	Passive global equities and bonds	315	342	32
LGIM*	Bonds	189	195	18
Mirabaud	UK equities	96	107	10
Pantheon	Private Equity	23	30	3
Standard Life	Less constrained UK equities	65	71	7
Pension Fund	Cash	13	12	1
<b>Total</b>		<b>1,004</b>	<b>1,069</b>	<b>100</b>

\*LGIM – Legal and General Investment Management

#### **Fund Managers Quarterly Performance to 30 June 2009**

4. The combined Fund achieved a gross return of 5.1% compared to its benchmark return of 6.6%, an underperformance of 1.5% for the quarter to 30 June 2009. A consolidated net performance for the total Fund is not available. Table 4 shows the fund managers' net performance compared to the benchmark:

<b>Fund Manager</b>	<b>Mandate</b>	<b>Net Performance %</b>	<b>Benchmark %</b>	<b>Net Relative Return %</b>
Alliance Bernstein	Less constrained global equities	2.1	5.4	-3.3
Aviva Investors	Property fund of funds	-6.4	-3.3	-3.1
BlackRock	Cash / inflation plus	6.2	1.0	5.2
Blackstone	Hedge fund of funds	5.0	0.1	4.9
Capital International	Global equities	5.1	7.0	-1.9
LGIM	Bonds	3.0	2.6	0.4
LGIM	Passive global equities & bonds	8.3	8.2	0.1
Mirabaud	UK equities	11.7	10.9	0.8
Pantheon (Asia V)	Private equity fund of funds	-20.7	12.5	-33.2
Pantheon (Europe V)	Private equity fund of funds	-9.2	9.9	-19.1
Pantheon (Europe VI)	Private equity fund of funds	-11.1	9.9	-21.0
Pantheon (USA VII)	Private equity fund of funds	-18.8	1.7	-20.5
Pantheon (USA VIII)	Private equity fund of funds	-17.7	1.7	-19.4
Standard Life	Less constrained UK equities	10.2	10.9	-0.7
			<b>6.6</b>	

5. For the quarter to 30 June 2009, BlackRock, Blackstone, LGIM bonds, LGIM – passive and Mirabaud outperformed their benchmarks. Alliance Bernstein, Aviva Investors, Capital International, Pantheon Asia V and Pantheon Europe V, Pantheon Europe VI, Pantheon USA VII, Pantheon USA VIII and Standard Life have underperformed 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. This is because these investments take time to make a profit; many private equity investments are initially loss making, followed by recovery and finally a move into profit.

### Quarter 1 2009 Fund Performance in the Local Authority League Tables

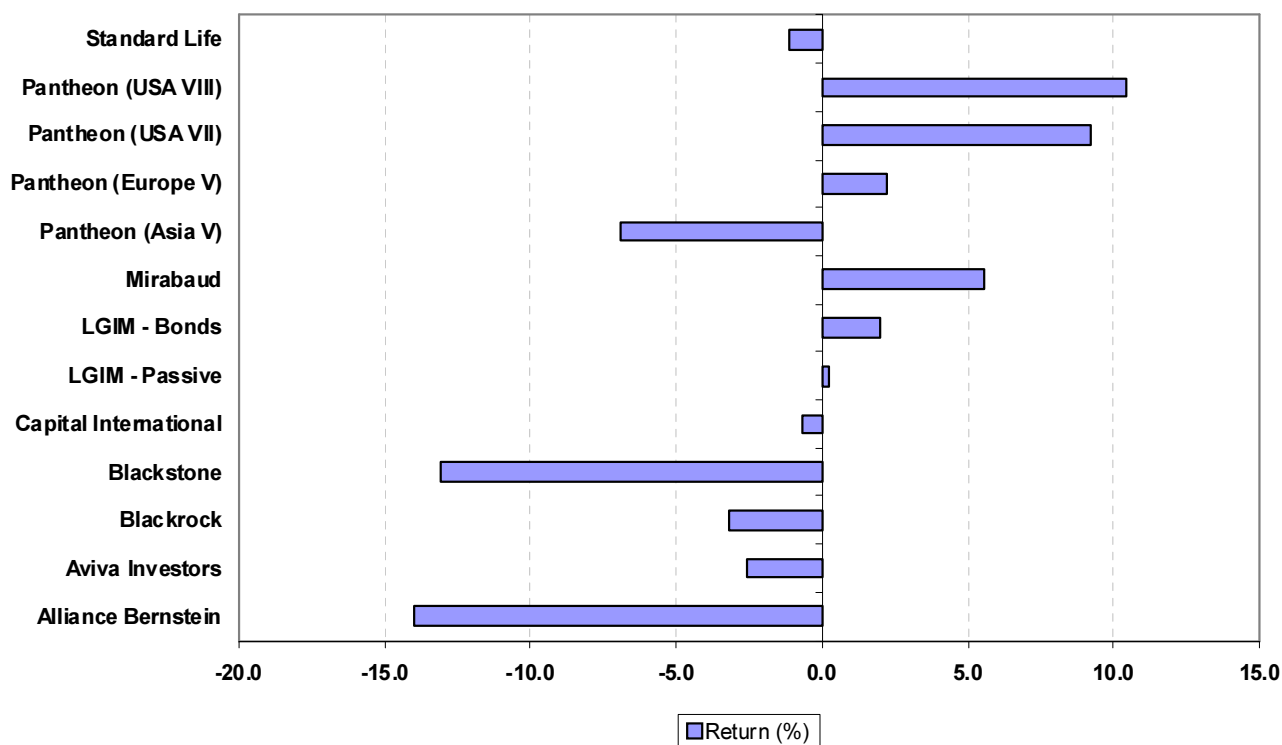
6. WM local authority universe data for the second quarter of 2009 is not yet available. Table 5 below shows the trend in the Fund's quarterly, annual, 3 year and 5 year performance each quarter for the previous three years and how the Fund is ranked compared to other local government pension funds. After achieving a ranking of 29th for the quarter, the Fund's annual, three years and five years rankings of 42, 38 and 45 respectively had improved compared to the previous quarter.

TABLE 5												
	2006			2007				2008				2009
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Quarterly	57	51	26	48	63	25	28	48	79	41	44	29
Annual	18	30	41	55	61	40	30	36	45	46	52	42
Three Years	41	56	50	51	56	38	34	28	29	33	48	38
Five Years	84	66	77	81	63	30	38	23	34	47	48	45

### Fund Managers Annual Performance to 30 June 2009

7. Graph 1 shows the fund managers' performance after fees over the previous 12 months against their benchmark. LGIM – passive, LGIM – bonds, Mirabaud, Pantheon (Europe V), Pantheon (USA VII) and Pantheon (USA VIII) have outperformed their benchmarks. Alliance Bernstein, Aviva Investors, BlackRock, Blackstone, Capital International, Pantheon (Asia V) and Standard Life have underperformed their benchmarks.

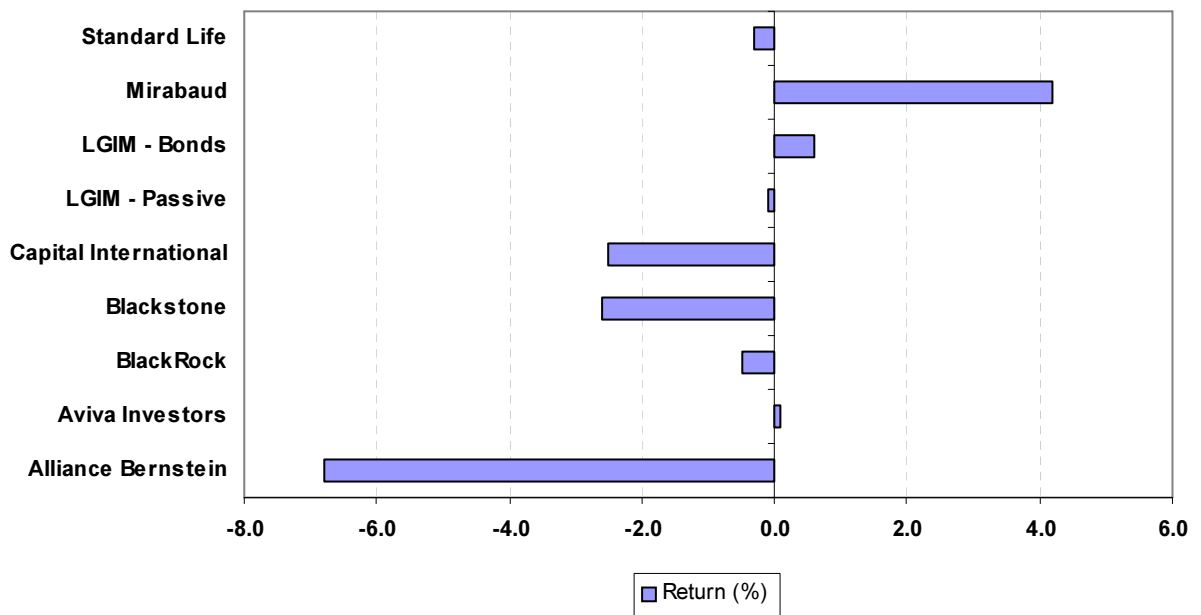
Graph 1 - Fund Managers' Net Annual Relative Return



### Fund Managers Three Year Performance to 30 June 2009

8. Graph 2 shows the fund managers' net performance over the previous three years against their benchmark, three years is a pension industry standard timescale for performance comparisons. Over the three years Mirabaud has outperformed its benchmark of -6.5% by 4.2%, LGIM – active bonds has outperformed its 3.8% benchmark by 0.6%, LGIM – passive has underperformed its benchmark of -2.6% by 0.1%, Capital International has underperformed its benchmark of -2.1% by 2.5%, Blackstone has underperformed its benchmark of 4.4% by 2.6%, BlackRock has underperformed its benchmark of 2.4% by 0.5%, Aviva Investors has outperformed its benchmark of -11.4% by 0.1% and Alliance Bernstein has underperformed its benchmark of -3.8% by 6.8%.

**Graph 2 - Fund Managers' 3 Year Relative Return**



**C. Resource Implications**

None.

**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.

**H. Progress Monitoring**

Updated governance and monitoring arrangements were agreed by the Pension Fund Committee in September 2009.

**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.*