

# Pension Fund Consultative Group

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<b>Title:</b>	<b>Fund Managers' Performance to 30 September 2010</b>
<b>Date:</b>	15 December 2010
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<b>Electoral divisions affected:</b>	N/A

## Summary

The Fund achieved a return of 8.5% for the quarter, outperforming its benchmark of 7.9% by 0.6%. Market gains in the third quarter of 2010 have largely offset the previous quarter's equity losses. A return of 10.8% for the twelve month period is reported.

## Recommendation

**The Group is asked to note the performance of the Pension Fund's fund managers for the third quarter of 2010, ending 30 September 2010 and comment as appropriate.**

### A. Main Issues Arising

#### Fund Value and Asset Allocation

1. Table 1 overleaf shows the Fund's assets as at 30 September 2010 compared to the planned allocation. Percentages change each quarter as the different asset classes generate different returns. The recovery in the equity markets during 2009 and the first quarter of 2010 accounts for the higher allocations at the end of the quarter to UK and overseas equities. The quarter 2 losses have largely been offset by equity market gains in the third quarter of 2010 following the risk of a double dip recession receding.



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2. 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 property investment commitments are funded.

**Table 1 Asset Allocation**

<b>Asset Class</b>	<b>Asset Allocation at 30 September 2010 %</b>	<b>Strategic Asset Allocation %</b>
Equities: UK	26	24
Equities: Overseas	37	36
Bonds	16	15
Property	8	10
Private Equity	5	8
Absolute Return Funds	6	7
Cash	2	0
	<b>100</b>	<b>100</b>

**Table 2: Fund Manager Asset Allocations and Performance**

Fund Manager	Allocation by Manager			Quarterly Performance				Annual Performance			Three Year Performance		
	30 June 2010 £m	30 Sept 2010 £m	30 Sept 2010 %	Net Performance %	Benchmark	Net Relative Return %	Manager Impact	Net Performance %	Benchmark	Net Relative Return %	Net Performance %	Benchmark	Net Relative Return %
Aviva Investors - Property Fund of Funds	124	127	9	2.6	1.9	0.7	0.1	11.2	18.8	-7.6	-11.4	-9.0	-2.4
Blackrock - Cash / inflation plus	23	24	2	6.9	0.5	6.4	0.1	10.8	4.6	6.2	5.0	2.7	2.3
Blackstone - Hedge fund of funds	59	60	4	2.3	0.1	2.2	0.1	6.6	0.4	6.2	0.8	2.3	-1.5
DB Advisors - Global equities	87	94	7	7.5	7.5	0.0	0.0	10.6	8.6	2.0	-	-	-
Investec - Global equities	88	96	7	8.9	7.5	1.4	0.1	10.3	8.6	1.7	-	-	-
Legal & General - Passive global equities & bonds	387	427	31	10.4	9.6	0.8	0.2	9.7	9.5	0.2	1.2	1.0	0.2
Mirabaud - UK equities	128	146	10	13.9	13.6	0.3	0.0	10.5	12.5	-2.0	2.5	-1.0	3.5
Pantheon - Private Equity	40	49	3	2.7	10.0	-7.3	-0.2	11.1	8.9	2.2	0.9	1.0	-0.1
Partners Group - Real Estate	8	11	1	16.3	3.1	13.2	0.1	6.8	6.3	0.5	-	-	-
Partners Group - Resources	5	5	0	9.8	3.1	6.7	-0.1	0.7	6.3	-5.6	-	-	-
Partners Group - Infrastructure	6	6	1	-8.7	3.1	-11.8	0.1	-7.3	6.3	-13.6	-	-	-
RLAM - Bonds	135	142	10	4.9	4.2	0.7	0.1	10.3	9.4	0.9	-	-	-
Schroders - Global Equity	92	100	7	9.1	7.5	1.6	0.1	14.6	8.6	6.2	-	-	-
Standard Life - UK Equity	94	108	8	15.2	13.6	1.6	0.1	11.3	12.5	-1.2	-2.2	-1.0	-1.2
Pension Fund	2	3	0	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,278</b>	<b>1,398</b>	<b>100</b>	<b>8.5</b>	<b>7.9</b>	<b>0.6</b>	<b>0.6</b>	<b>10.8</b>	<b>10.9</b>	<b>-0.1</b>	<b>10.7</b>	<b>10.9</b>	<b>-0.2</b>

### **Fund Managers Quarterly Performance to 30 September 2010**

3. The value of the Fund, and performance data for each fund manager is summarised in Table 2, on the previous page. The combined Fund achieved a net return of 8.5% compared to its benchmark return of 7.9%, an outperformance of 0.6% for the quarter to 30 September 2010.
4. All of the Fund managers except Pantheon and Partners Infrastructure outperformed their benchmarks for the quarter, Pantheon recorded an underperformance of 7.3% and Partners Infrastructure recorded an underperformance of 11.8%. Please note the performance for the private equity fund of funds managed by Pantheon and Partners Group 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. The impact that each manager's return has on the Fund's net relative return is reported in the eighth column of Table 3. Aviva, BlackRock, Blackstone, Deutsche Bank, Investec, Legal & General, Schrodgers and Standard Life's positive contributions are partially offset by the impact of Pantheon's underperformance.

### **Fund Managers Longer Term Performance to 30 September 2010**

5. During the year to 30 September 2010 the combined Fund achieved a net return of 10.8% compared to its benchmark return of 10.9%, an underperformance of -0.1%. Blackrock, Blackstone and Schrodgers report strong performance relative to the benchmark for the year. This is the first quarter that annual performance has been reported for the bond manager and global equity managers appointed in 2009 – DB Advisors, Investec, Schrodgers and Royal London Asset Management are all reporting annual outperformance. Aviva, Mirabaud and Standard Life are showing annual underperformance. Legal & General, in accordance with its passive mandate is close to the benchmark. Comments relating to the relevance of Pantheon and Partners Group data is outlined in paragraph 5 of this report.
6. Seven managers have been employed for a full three year period, three years is a pension industry standard timescale for performance comparisons. Over the three years Blackrock and Mirabaud have outperformed their benchmarks; although, Aviva, Blackstone, Pantheon and Standard Life have underperformed against their benchmarks. Legal & General, in accordance with its passive mandate is close to the benchmark.

### **Fund Manager Meetings**

7. In accordance with updated monitoring arrangements, officers met with most of the Fund's Fund Managers recently. Each meeting has focussed on manager performance and the outlook over the short and longer term. In addition, the members of the Pension Fund Committee have recently met with Blackrock and DB Advisors.

## Quarter 2 2010 Fund Performance in the Local Authority League Tables

8. WM local authority universe data for the third quarter of 2010 is not yet available. Table 3 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. The Fund underperformed its benchmark by 1.0% in the second quarter of 2010 and therefore achieved a ranking of 54th for the quarter. As demonstrated by Table 4, quarterly ranking can be volatile and the trend should be monitored over a longer period of time. Following the major transition in September 2009 and Aviva's annual underperformance of 10% in quarter 3 2009, the annual ranking of 86<sup>th</sup> is the lowest recorded in recent years. The Fund's three years and five years rankings of 47 and 51 respectively are comparable to the rankings reported in respect of the previous quarter.

**Table 3 – WM Benchmarking data (using percentages)**

	2007		2008				2009				2010	
	Q3	Q4	Q1	Q2	Q3	Q4	Q 1	Q2	Q3	Q4	Q1	Q2
Quarterly	25	28	48	79	41	44	29	74	72	47	53	54
Annual	40	30	36	45	46	52	42	42	55	60	68	86
Three Years	38	34	28	29	33	48	38	43	46	43	47	47
Five Years	30	38	23	34	47	48	45	51	45	35	47	51

### B. Other Implications / Issues

9. Any underlying performance issues will be managed in accordance with the established process.

### C. Communication Issues

10. A performance update is reported quarterly to the Pension Fund Committee, six monthly to the Pension Fund Consultative Group and annually to the Pension Fund's employers.

### D. Progress Monitoring

11. To be reviewed by Committee quarterly.

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### Background Papers

None

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