

## AGENDA MANAGEMENT SHEET

<b>Name of Committee</b>	<b>Pension Fund Investment Board</b>
<b>Date of Committee</b>	<b>23 May 2005</b>
<b>Report Title</b>	<b>Investment Performance</b>
<b>Summary</b>	The report considers pension fund performance to 31 March 2005.
<b>For further information please contact:</b>	Phil Triggs Group Accountant (Treasury and Pensions) Tel: 01926 412227 philtriggs@warwickshire.gov.uk
<b>Would the recommended decision be contrary to the Budget and Policy Framework?</b>	No.
<b>Background papers</b>	Reports from fund managers

### CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

Other Committees	<input type="checkbox"/>	.....
Local Member(s)	<input type="checkbox"/>	.....
Other Elected Members	<input type="checkbox"/>	.....
Cabinet Member	<input type="checkbox"/>	.....
Chief Executive	<input type="checkbox"/>	.....
Legal	<input checked="" type="checkbox"/>	Liam Nevin, Solicitor
Finance	<input checked="" type="checkbox"/>	David Clarke, County Treasurer – reporting officer
Other Chief Officers	<input type="checkbox"/>	.....
District Councils	<input type="checkbox"/>	.....
Health Authority	<input type="checkbox"/>	.....
Police	<input type="checkbox"/>	.....
Other Bodies/Individuals	<input type="checkbox"/>	.....

**FINAL DECISION YES**

**SUGGESTED NEXT STEPS:**

Details to be specified

Further consideration by  
this Committee ☐ .....

To Council ☐ .....

To Cabinet ☐ .....

To an O & S Committee ☐ .....

To an Area Committee ☐ .....

Further Consultation ☐ .....

## Pension Fund Investment Board – 23 May 2005

### Investment Performance

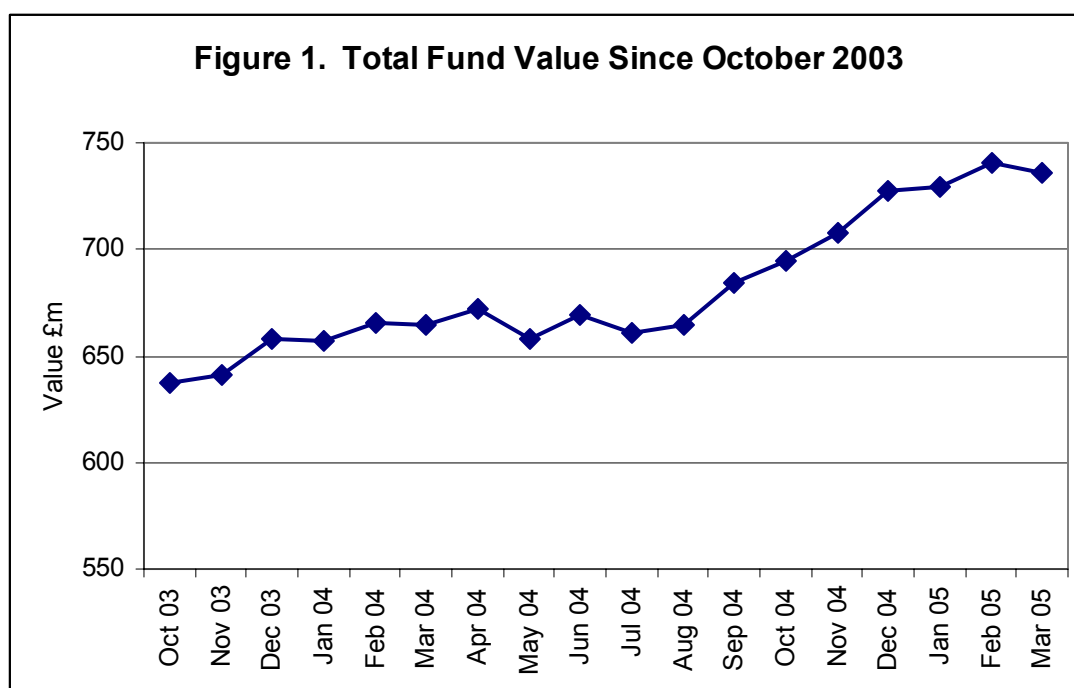
### Report of the County Treasurer

#### Recommendation

That the Board notes the fund value and performance in 2004/2005.

#### 1. Fund Value to date in 2004/2005

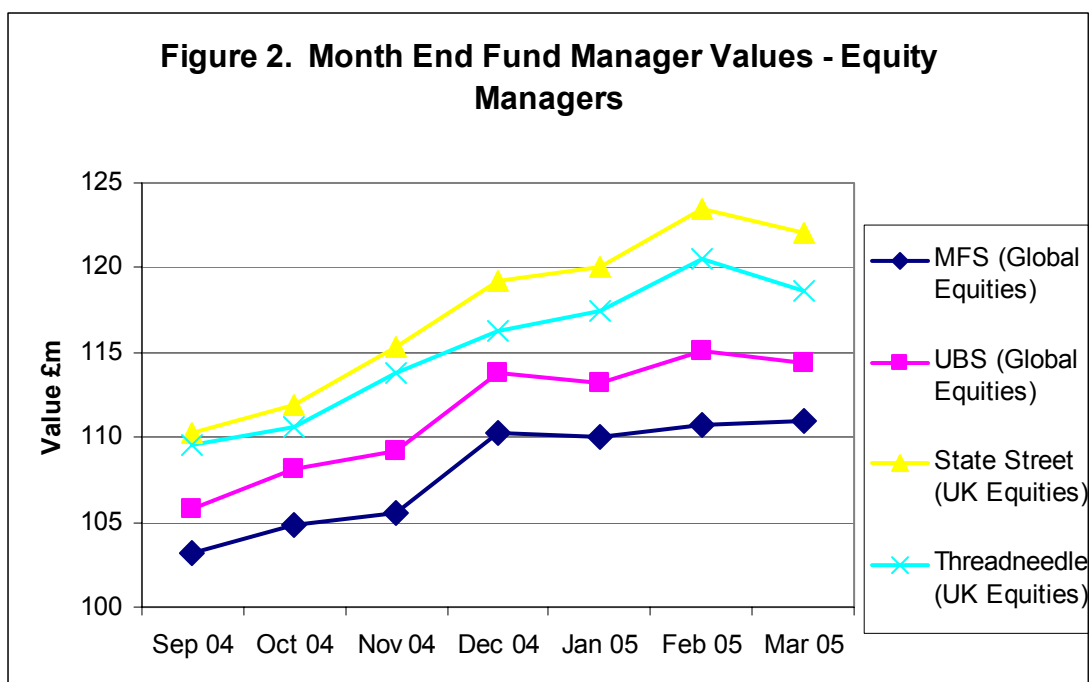
- 1.1 The report to the Board's meeting on 14 February 2005 gave the position on the fund at 31 December 2004 as £727.9m. This was at a time when markets had been improving as investors became reassured about the prospects for the global economy after concerns over the war in Iraq.
- 1.2 Since this time, the fund has seen a further rise in value to £736.1m as at 31 March 2005. Over the quarter, the US and UK have exhibited strong growth while Europe has lagged and the Japanese economy has fallen back into recession. Bond markets were initially strong but weakened sharply after mid February in response to expectations of tighter monetary policy, led by the US. The total value of the pension fund has experienced a rising trend over the last 18 month, fluctuating as shown in figure 1.



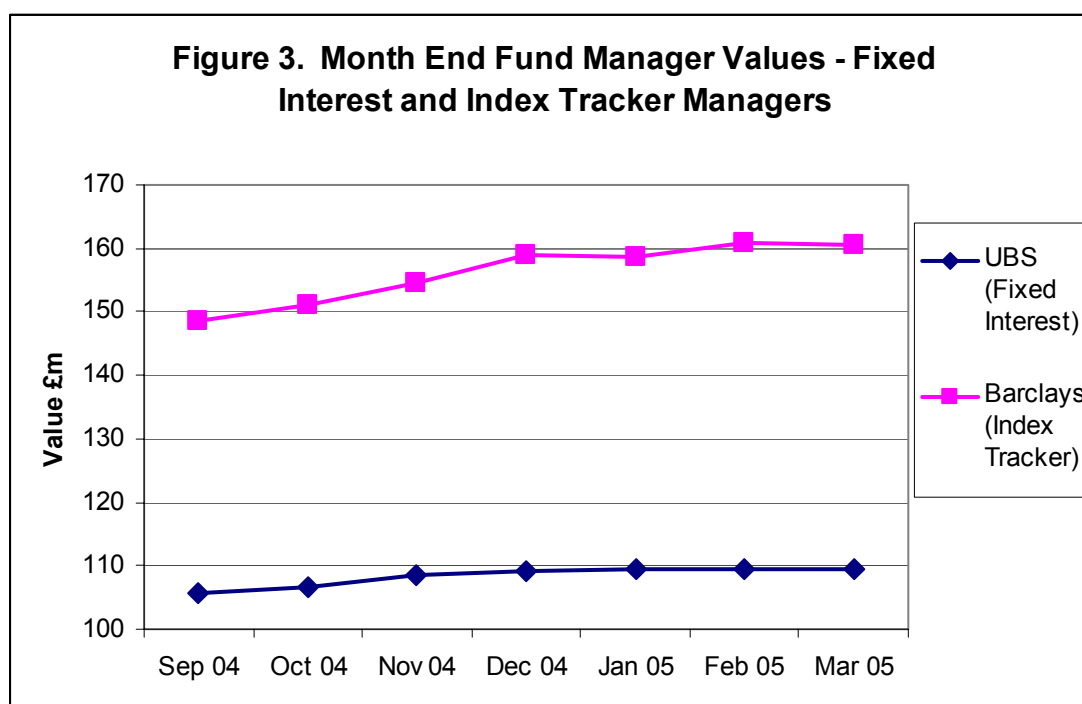
- 1.3 During the first two quarters of 2004/2005, the pension fund underwent a restructure and moved from two balanced fund managers (UBS and Henderson) to five specialist active managers and a passive index tracker:

Mandate	Fund Manager(s)
Global Equities	UBS and MFS
UK Equities	State Street and Threadneedle
Fixed Interest	UBS
Index Tracker	Barclays Global Investors

- 1.4 The transition was managed by Merrill Lynch Investment Managers (MLIM) and took place between the 18 August and 13 September 2004. The new management structure was effective from 14 September 2004.
- 1.5 The value of the portfolios invested with the new equity managers since September 2004 is shown in figure 2. All managers have seen an increase in portfolio values since September, although values fell for each manager in March 2005.



- 1.6 The value of the portfolios invested with the Fixed Interest and Index Tracker Managers are shown in Figure 3.



NOTE: there are small residual values with MLIM and Henderson too small to appear in the charts.

- 1.7 The fund managers will provide detailed performance reports in their six monthly presentations to the board.

## 2. Fund Asset Allocation

- 2.1 The asset allocation of the fund as at 31 March 2005 is as follows:

Asset Class		Q/E March 2005	Fund policy	Over/under weight
		%	%	%
<b>Equity</b>		<b>76.0</b>	<b>75.0</b>	<b>1.0</b>
	UK	38.4	37.5	0.9
	Europe (exUK)	16.4	15.0	1.4
	North America	10.5	11.3	-0.8
	Japan	5.6	5.6	0.0
	Pacific Basin (ex Japan)	2.4	2.8	-0.4
	Emerging Markets/other	2.8	2.8	0.0
<b>Fixed Income</b>		<b>23.2</b>	<b>25.0</b>	<b>-1.8</b>
	UK corporate bonds	9.3	10.0	-0.7
	UK government bonds	9.2	10.0	-0.8
	UK index linked bonds	4.6	5.0	-0.4
<b>Cash</b>		<b>0.8</b>	<b>0.0</b>	<b>0.8</b>
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Source: Russell Mellon

- 2.2 Overall the fund was overweight in UK and European equities and cash and underweight in North American and Pacific equities and Fixed Income investments.

### 3. Fund Performance

- 3.1 The performance of the fund against its asset class benchmarks for the quarter ending 31 March 2005 was:

Asset Type	Benchmark Measure	Q/E March 2005	Benchmark	Variance
		%	%	%
<b>Equity</b>				
United Kingdom	<i>FTSE All-Share</i>	2.28	3.05	<b>-0.77</b>
Europe ex UK	<i>FTSE World Europe ex UK</i>	1.84	1.52	<b>0.32</b>
North America	<i>FTSE World North America</i>	-0.30	-0.04	<b>-0.26</b>
Japan	<i>FTSE World Japan</i>	-3.45	-0.38	<b>-3.07</b>
Pacific Basin ex Japan	<i>FTSE AWI Developed Asia Pacific (ex Japan)</i>	1.08	1.97	<b>-0.89</b>
Emerging Markets	<i>FTSE AWI Emerging Markets</i>	3.63	2.81	<b>0.82</b>
<b>Fixed Income</b>				
UK Corporate Bonds	<i>iBoxx Sterling Non-Gilts</i>	0.49	0.50	<b>-0.01</b>
UK Government Bonds	<i>FTSE UK Government All Stocks</i>	0.06	-0.08	<b>0.14</b>
UK Index Linked Bonds	<i>FTSE UK Government Linked Gilts</i>	-0.12	-0.14	<b>0.02</b>
<b>Total WCC Fund</b>				
	<b>WCC Total Fund Benchmark</b>	<b>1.13</b>	<b>1.53</b>	<b>-0.40</b>

Source: Russell Mellon

- 3.2 Overall the fund under performed the benchmark by 0.40%. There was out-performance in four asset classes:

- European Equities (16.4% of the fund) performed 0.32% above the benchmark
- Emerging Market Equities (2.8% of the fund) performed 0.82% above the benchmark
- UK Government Bonds (9.2% of the fund) performed 0.14% above the benchmark
- UK Index Linked Bonds (4.6% of the fund) performed 0.02% above the benchmark

3.3 However, five asset classes under-performed against their benchmark in the quarter:

- UK Equities (38.4% of the fund) performed 0.77% below the benchmark
- North American Equities (10.5% of the fund) performed 0.26% below the benchmark
- Japanese Equities (5.6% of the fund) performed 3.07% below the benchmark
- Pacific (ex Japan) Equities (2.4% of the fund) performed 0.89% below the benchmark
- UK Corporate Bonds (9.3% of the fund) performed 0.01% below the benchmark.

3.4 **Appendix A** provides details of the investment managers' mandates and benchmark targets. The performances of managers against their benchmarks for the quarter ending 31 March 2005 were:

Manager	Benchmark Measure	Q/E March 2005 %	Benchmark %	Variance %
Barclays	<i>BGI Benchmark</i>	0.97	0.93	<b>0.04</b>
MFS	<i>Global Equity Benchmark</i>	0.59	1.00	<b>-0.41</b>
State Street	<i>FTSE All-Share</i>	2.40	3.05	<b>-0.65</b>
Threadneedle	<i>FTSE All-Share</i>	1.91	3.05	<b>-1.14</b>
UBS (Global Equities)	<i>Global Equity Benchmark</i>	0.56	1.00	<b>-0.44</b>
UBS (Bond)	<i>UBS UK Bond Benchmark</i>	0.27	0.21	<b>0.06</b>
<b>Total</b>	<b><i>WCC Total Fund Benchmark</i></b>	<b>1.13</b>	<b>1.53</b>	<b>-0.40</b>

3.5 Overall the fund underperformed its overall benchmark by 0.4%. During the quarter, four managers (MFS, State Street, Threadneedle and UBS-Global Equities) failed to meet their benchmark. The two remaining managers (Barclays and UBS-Fixed Income) out-performed their benchmarks. **Appendix A** provides details of the out-performance required by each fund manager over three-year rolling periods.

3.6 Two quarters data on the performance of the new managers is available. The performance of managers against their benchmark in these quarters is shown overleaf.

<b>Manager</b>	<b>Variance Q/E Dec 04 %</b>	<b>Variance Q/E Mar 05 %</b>
Barclays	<b>0.10</b>	<b>0.04</b>
MFS	<b>-0.32</b>	<b>-0.41</b>
State Street	<b>1.32</b>	<b>-0.65</b>
Threadneedle	<b>-0.68</b>	<b>-1.14</b>
UBS (Global Equities)	<b>0.44</b>	<b>-0.44</b>
UBS (Fixed Income)	<b>-0.13</b>	<b>0.06</b>
<b>Total</b>	<b>0.07</b>	<b>-0.40</b>

- 3.7 Barclays have exceeded their benchmark in both quarters, while MFS and Threadneedle have under-performed their benchmark in both quarters. All other managers have had one quarter of out-performance and one quarter of under-performance.

DAVID CLARKE  
County Treasurer

Shire Hall  
Warwick  
February 2005



## Investment Managers Mandates

### BGI

The initial details of the multi-asset passive mandate are as follows:

	Benchmark (%)	Index
UK Equities	9.0	FTSE All-Share Index
European (ex UK) Equities	38.5	FTSE AW Developed Europe (ex UK) Index
North American Equities	6.0 *	FTSE AW USA Index FTSE AW Canada Index
Japanese Equities	3.0	FTSE AW Japan Index
Pacific Basin (ex Japan) Equities	1.5	FTSE AW Developed Pacific (ex Japan) Index
Emerging Markets Equities	1.5	IFC Investable Index (ex Malaysia)
UK Corporate Bonds	9.0	iBoxx Sterling Non Gilts All Stocks years Index
UK Fixed Interest Gilts	9.0	FTSE A All Stocks Fixed Interest Gilt Index
UK Index Linked Gilts	22.5	FTSE A All Stocks Index Linked Gilt Index
<b>Total</b>	<b>100.0</b>	

\* Split between the US and Canada in proportion with the FTSE AW Developed North America Index.

Within each class of assets, BGI will be expected to track the relevant benchmark index within agreed tolerance limits.

In addition, BGI will be expected to maintain the overall Fund benchmark (details given in section 3.3) by rebalancing its assets under management, i.e., the passive investment manager will act as a “Swing Manager” on behalf of the Fund. Therefore, the above mandate will only apply initially; the ongoing mandate will vary with swing management.

### SSGA and Threadneedle

The details of the UK equity mandates are:

	Benchmark (%)	Allowable Range (%)	Index
UK Equities	100.0	+/- 5.0	FTSE All-Share Index
Cash	0.0	+/- 5.0	

The out-performance target for each UK equity mandate is FTSE All Share Index +1.5% per annum (gross of fees) over rolling three-year periods.

## UBS (Global Equity) and MFS

The details of the global equity mandates are:

	Benchmark (%)	Allowable Range (%)	Index
European Equities	33.3	+/- 10.0	FTSE AW Developed Europe Index
North American Equities	33.3	+/- 10.0	FTSE AW Developed North America Index
Japanese Equities	16.7	+/- 5.0	FTSE AW Developed Japan Index
Pacific Basin (ex Japan) Equities	8.3	+/- 3.0	FTSE AW Developed Pacific (ex Japan) Index
Emerging Markets Equities	8.3	+/- 3.0	FTSE AW All Emerging Index
Cash	0.0	+/- 5.0	
<b>Total</b>	<b>100.0</b>		

Totals affected by rounding

The out-performance target for each global equity mandate is 1.5% per annum (gross of fees) over rolling three-year periods above the return of the indices weighted by the benchmark allocation.

## UBS (Bonds)

The details of the bond mandate are:

	Benchmark (%)	Allowable Range (%)	Index
UK Corporate Bonds	50.0	+/- 20.0	iBoxx Sterling Non-Gilts All Stocks Index
UK Fixed Interest Gilts	50.0	+/- 20.0	FTSE A All Stocks Fixed Interest Gilt Index
Cash	0.0	+/- 5.0	
<b>Total</b>	<b>100.0</b>		

The out-performance target for the bond mandate is 1.0% per annum (gross of fees) over rolling three-year periods above the return of the indices weighted by the benchmark allocation.