

## AGENDA MANAGEMENT SHEET

<b>Name of Committee</b>	<b>Pension Fund Investment Board</b>
<b>Date of Committee</b>	<b>14 November 2005</b>
<b>Report Title</b>	<b>Investment Performance</b>
<b>Summary</b>	The report considers pension fund performance to 30 September 2005.
<b>For further information please contact:</b>	Phil Triggs Group Manager (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 checked="" type="checkbox"/>	Cllr Davis, Chair of Pension Fund Board
Cabinet Member	<input type="checkbox"/>	.....
Chief Executive	<input type="checkbox"/>	.....
Legal	<input checked="" type="checkbox"/>	Jane Pollard, Assistant County Solicitor, Catherine Witham, Senior 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 ☐ .....

**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 ☐ .....

## Agenda No

### Pension Fund Investment Board – 1 August 2005

#### Investment Performance

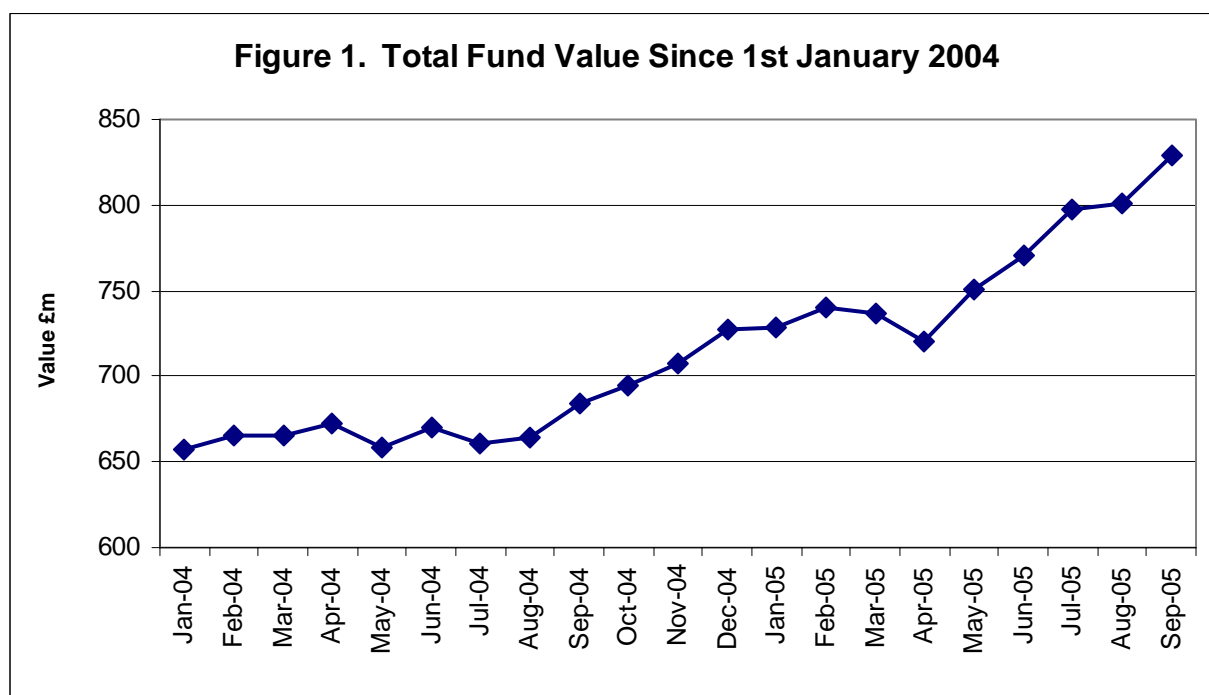
#### Briefing Paper of the County Treasurer

##### Recommendation

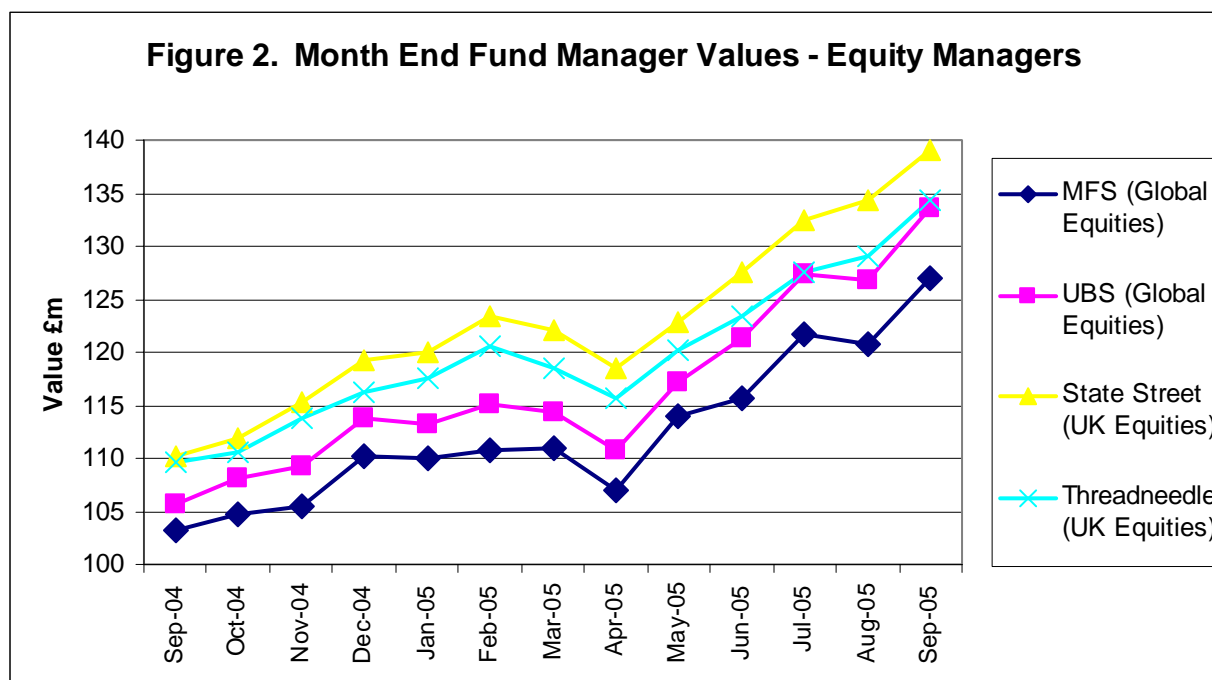
That the Board notes the fund value and performance for the second quarter in 2005/2006.

#### 1. Fund Value to date in 2005/2006

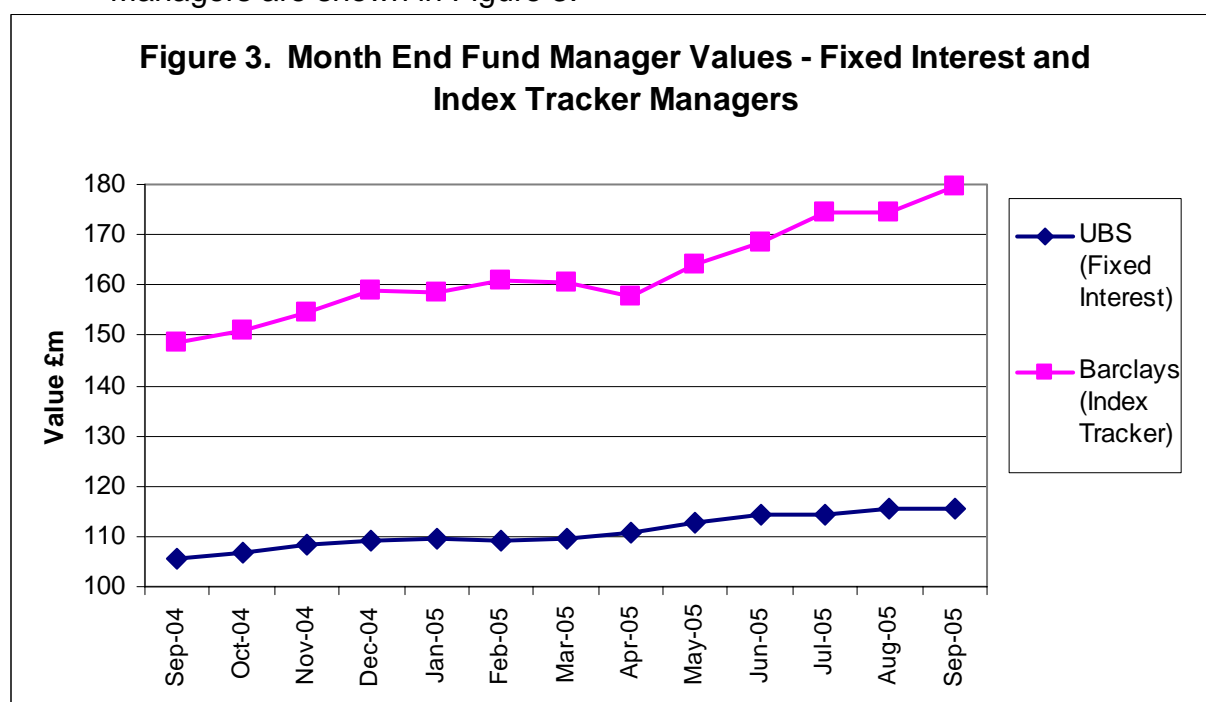
- 1.1 The report to the Board's meeting on 1 August 2005 advised that the value of the fund at 30 June was £770.8m. This was at a time when the US, UK, Asian-Pacific and Emerging Markets performed well while the Japanese equity market lagged behind.
- 1.2 Since this time, the fund has seen a further rise in value to £829.1m as at 30 September 2005. Over the quarter, global profits growth has been strong, providing a strong backdrop for equity markets. The best performing equity markets were Japan and Emerging Markets. The US equity market was relatively weak. The total value of the pension fund has experienced a rising trend over the last 18 months, fluctuating as shown in Figure 1.



- 1.3 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 2004, although values fell for each manager in March and April 2005.



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



- 1.5 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 30 September 2005 is as follows:

**Table 1. Asset Allocation**

Asset Class	Q/E Sept 2005	Fund policy	Over/under weight
	%	%	%
<b>Equity</b>	<b>76.6</b>	<b>75.0</b>	<b>1.6</b>
UK	38.3	37.5	0.8
Europe (ex UK)	17.3	15.0	2.3
North America	10.5	11.3	-0.8
Japan	5.6	5.9	-0.3
Pacific Basin (ex Japan)	2.2	2.5	-0.3
Emerging Markets/other	2.7	2.8	-0.1
<b>Fixed Income</b>	<b>22.5</b>	<b>25.0</b>	<b>-2.5</b>
UK corporate bonds	9.1	10.0	-0.9
UK government bonds	8.7	10.0	-1.3
UK index linked bonds	4.5	5.0	-0.5
Global fixed income	0.3	0.0	0.3
<b>Cash</b>	<b>0.9</b>	<b>0.0</b>	<b>0.9</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, Global Fixed Income and cash and underweight in all other asset classes. Necessary adjustments to asset allocation are made by Barclays (Index-Tracker Manager) immediately after the quarter end in order to adhere to the fund policy.

### 3. Fund Performance

3.1 The performance of the fund against its asset class benchmarks for the quarter ending 30 September 2005 was:

**Table 2. Performance by Asset Type**

Asset Type	Benchmark Measure	Q/E Sept 2005	Benchmark	Variance
		%	%	%
<b>Equity</b>				
United Kingdom	<i>FTSE All-Share</i>	8.71	8.15	<b>0.56</b>
Europe ex UK	<i>FTSE World Europe ex UK</i>	9.87	9.79	<b>0.08</b>
North America	<i>FTSE World North America</i>	5.55	5.92	<b>-0.37</b>
Japan	<i>FTSE World Japan</i>	16.65	19.91	<b>-3.26</b>
Pacific Basin ex Japan	<i>FTSE AWI Developed Asia Pacific (ex Japan)</i>	12.67	11.40	<b>1.27</b>
Emerging Markets	<i>FTSE AWI Emerging Markets</i>	20.19	19.54	<b>0.65</b>
<b>Fixed Income</b>				
UK Corporate Bonds	<i>iBoxx Sterling Non-Gilts</i>	1.11	0.85	<b>0.26</b>
UK Government Bonds	<i>FTSE UK Government All Stocks</i>	0.63	0.45	<b>0.18</b>
UK Index Linked Bonds	<i>FTSE UK Government Linked Gilts</i>	1.33	1.35	<b>-0.02</b>
<b>Total WCC Fund</b>				
	<b>WCC Total Fund Benchmark</b>	<b>7.56</b>	<b>7.40</b>	<b>0.16</b>

Source: Russell Mellon

3.2 Overall the fund out-performed the benchmark by 0.16%. There was out-performance in six asset classes:

- UK Equities (38.3% of the fund) performed 0.56% above the benchmark
- European Equities (17.3% of the fund) performed 0.08% above the benchmark
- Pacific (ex Japan) Equities (2.2% of the fund) performed 1.27% above the benchmark
- Emerging Market Equities (2.7% of the fund) performed 0.65% above the benchmark
- UK Corporate Bonds (9.1% of the fund) performed 0.26% above the benchmark
- UK Government Bonds (8.7% of the fund) performed 0.18% above the benchmark.

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

- North American Equities (10.5% of the fund) performed 0.37% below the benchmark
- Japanese Equities (5.6% of the fund) performed 3.26% below the benchmark
- UK Index Linked Bonds (4.5% of the fund) performed 0.02% 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 30 September 2005 were:

**Table 3. Performance by Fund Manager**

Manager	Benchmark Measure	Q/E Sept 2005	Benchmark	Variance
		%	%	%
Barclays	<i>BGI Benchmark</i>	6.61	6.35	<b>0.26</b>
MFS	<i>Global Equity Benchmark</i>	9.89	10.56	<b>-0.67</b>
State Street	<i>FTSE All-Share</i>	8.98	8.16	<b>0.82</b>
Threadneedle	<i>FTSE All-Share</i>	8.93	8.16	<b>0.77</b>
UBS (Global Equities)	<i>Global Equity Benchmark</i>	10.02	11.48	<b>-1.46</b>
UBS (Fixed Interest)	<i>UBS UK Bond Benchmark</i>	0.92	0.65	<b>0.27</b>
<b>Total</b>	<b><i>WCC Total Fund Benchmark</i></b>	<b>7.56</b>	<b>7.40</b>	<b>0.16</b>

Source: Russell Mellon

3.5 Overall the fund out-performed its overall benchmark by 0.16%. During the quarter, Barclays, State Street, Threadneedle, and UBS (Fixed Interest) out-performed their benchmarks. However, MFS and UBS (Global Equities) failed to meet their benchmarks. **Appendix A** provides details of the out-performance required by each fund manager over three-year rolling periods.

3.6 Twelve months data on the performance of the new managers is available. The performance of managers against their benchmark over this period is shown below.

**Table 4. Fund Manager Performance to Date**

<b>Manager</b>	<b>Variance Q/E Dec 04</b>	<b>Variance Q/E Mar 05</b>	<b>Variance Q/E June 05</b>	<b>Variance Q/E Sept 05</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Barclays	<b>0.10</b>	<b>0.04</b>	<b>-0.07</b>	<b>0.26</b>
MFS	<b>-0.32</b>	<b>-0.41</b>	<b>-2.00</b>	<b>-0.67</b>
State Street	<b>1.32</b>	<b>-0.65</b>	<b>-0.50</b>	<b>0.82</b>
Threadneedle	<b>-0.68</b>	<b>-1.14</b>	<b>-0.95</b>	<b>0.77</b>
UBS (Global Equities)	<b>0.44</b>	<b>-0.44</b>	<b>-0.13</b>	<b>-1.46</b>
UBS (Fixed Interest)	<b>-0.13</b>	<b>0.06</b>	<b>-0.19</b>	<b>0.27</b>
<b>Total</b>	<b>0.07</b>	<b>-0.40</b>	<b>-0.60</b>	<b>0.16</b>

Source: Russell Mellon

- 3.7 No manager has consistently exceeded their benchmark over all four quarters. MFS is the only fund manager to have failed to meet their benchmark since appointed.

DAVID CLARKE  
County Treasurer

Shire Hall  
Warwick  
November 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)

The details of the global equity mandate are:

	Benchmark (%)	Allowable Range (%)	Index
European (inc UK) Equities	30.56	+/- 10.0	FTSE Europe Developed (inc UK) Index
North American Equities	30.56	+/- 10.0	FTSE AW Developed North America Index
Pacific Basin (inc Japan) Equities	30.55	+/- 10.0	FTSE Asia Pacific Developed Pacific (inc Japan) Index
Emerging Markets Equities	8.33	+/- 3.0	FTSE AW All Emerging Index
Cash	0.00	+/- 5.0	
<b>Total</b>	<b>100.00</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.

## MFS (Global Equity)

The details of the global equity mandate are:

	Benchmark (%)	Allowable Range (%)	Index
European (inc UK) Equities	36.11	+/- 10.0	FTSE AW Developed Europe Index
North American Equities	36.11	+/- 10.0	FTSE AW Developed North America Index
Japanese Equities	15.00	+/- 5.0	FTSE AW Developed Japan Index
Pacific Basin (ex Japan) Equities	4.45	+/- 3.0	FTSE AW Developed Pacific (ex Japan) Index
Emerging Markets Equities	8.33	+/- 3.0	FTSE AW All Emerging Index
Cash	0.00	+/- 5.0	
<b>Total</b>	<b>100.00</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	+/- 15.0	
<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.