

AGENDA MANAGEMENT SHEET

Name of Committee Pension Fund Investment Board

Date of Committee 17 February 2006

Report Title Investment Performance

Summary The report considers pension fund investment performance to 31 December 2005.

For further information please contact: Phil Triggs
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Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers Reports from fund managers

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members Cllr Davis, Chair of Pension Fund Board
- Cabinet Member
- Chief Executive
- Legal Jane Pollard, Assistant County Solicitor,
Catherine Witham, Senior Solicitor
- Finance David Clarke, Strategic Director of Resources
(reporting officer)
- Other Chief Officers
- District Councils
- Health Authority
- Police

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

Pension Fund Investment Board 17 February 2006

Investment Performance

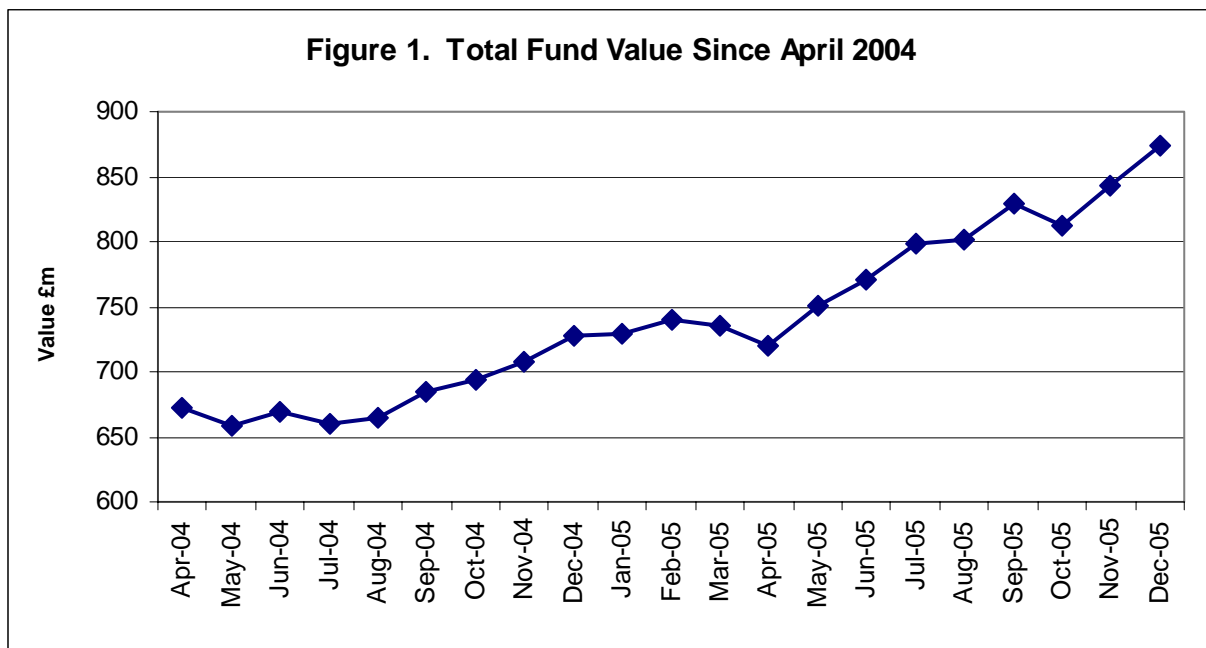
Report of the Strategic Director of Resources

Recommendation

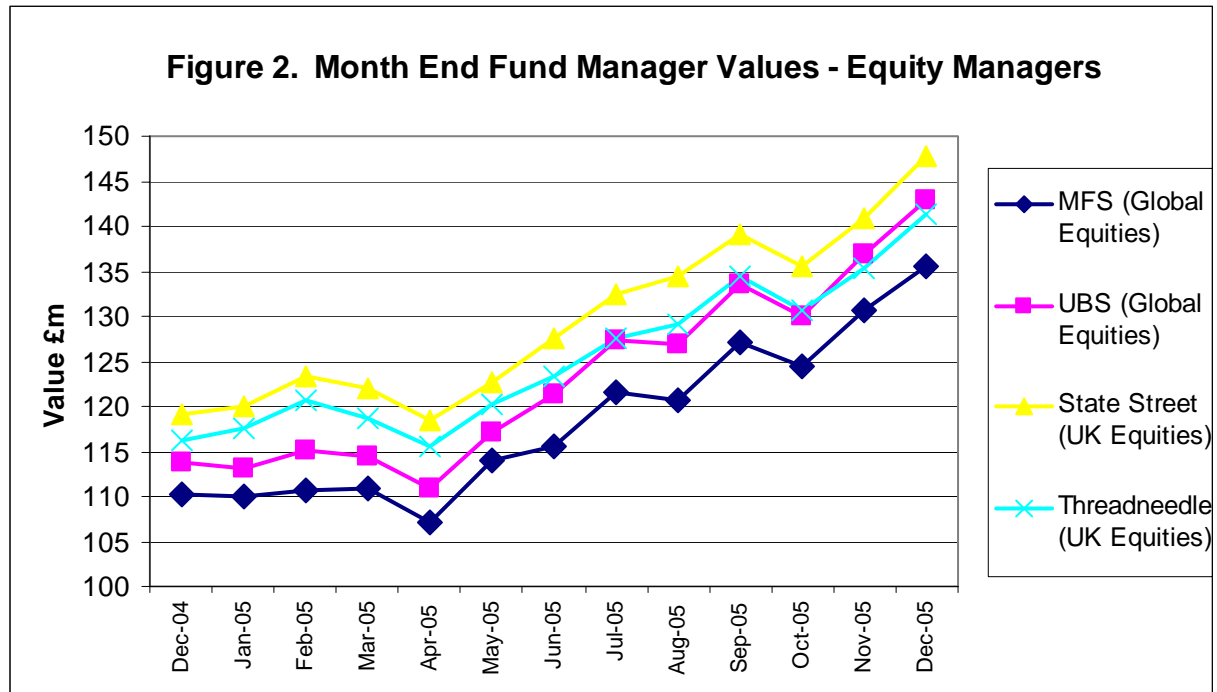
That the Board notes the fund value and performance for the third quarter in 2005/2006 to 31 December 2005.

1. Fund Value to date in 2005/2006

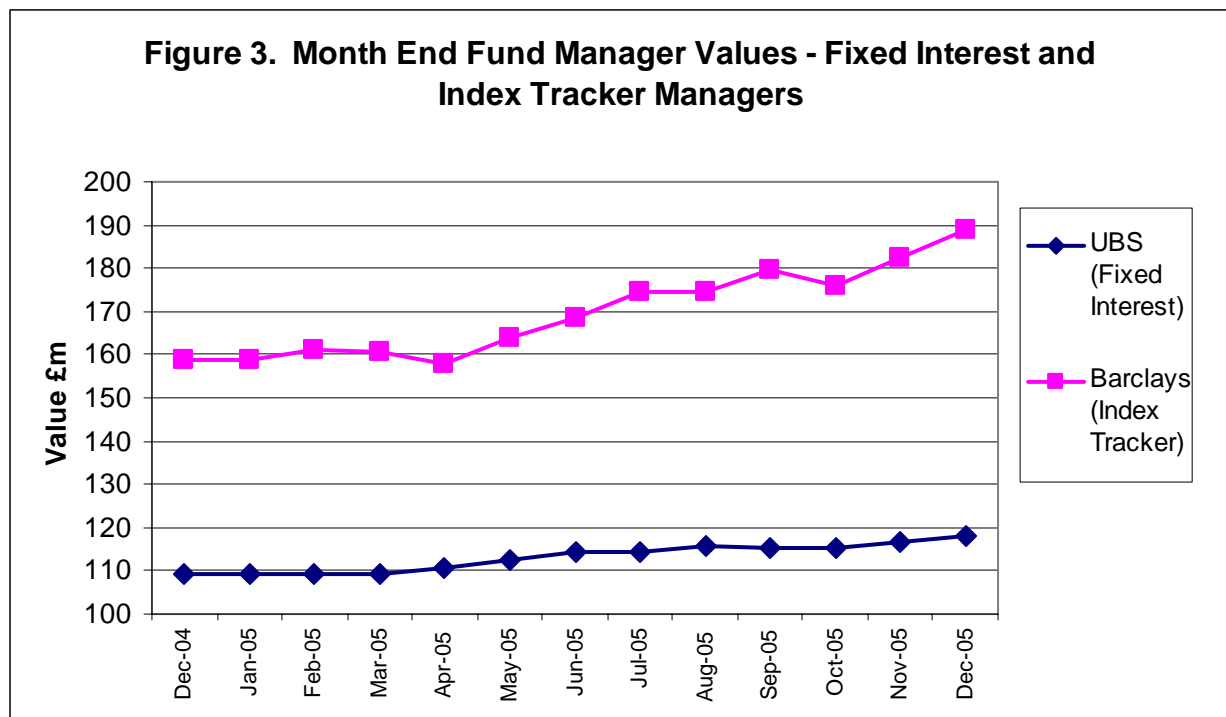
- 1.1 The report to the Board's meeting on 14 November 2005 advised that the value of the fund at 30 September 2005 was £829.1m. The best performing equity markets were Japan and Emerging Markets. The US equity market was relatively weak.
- 1.2 Since this time, the fund has seen a further rise in value to £874.4. Economic growth rose at or little above the long term trend with particular strength in the USA and Japan. The UK economy remains 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. October 2005 saw each equity managers value reduce slightly but have seen a steady rise in value through November and December 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 31 December 2005 is as follows:

Table 1: Asset Allocation

Asset Class		Q/E Dec 2005	Fund policy	Over/under weight
		%	%	%
Equity		77.2	75.0	2.2
	UK	38.1	37.5	0.6
	Europe (ex UK)	17.5	15.0	2.5
	North America	10.7	11.3	-0.6
	Japan	6.1	6.1	0.0
	Pacific Basin (ex Japan)	2.1	2.3	-0.2
	Emerging Markets/other	2.7	2.8	-0.1
Fixed Income		21.7	25.0	-3.3
	UK corporate bonds	8.7	10.0	-1.3
	UK government bonds	8.4	10.0	-1.6
	UK index linked bonds	4.3	5.0	-0.7
	Global fixed income	0.3	0.0	0.3
Cash		1.1	0.0	1.1
Total		100.0	100.0	0.0

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 31 December 2005 was:

Table 2: Performance by Asset Type

Asset Type	Benchmark Measure	Q/E Dec 2005	Benchmark	Variance
		%	%	%
Equity				
United Kingdom	<i>FTSE All-Share</i>	5.30	4.20	1.10
Europe ex UK	<i>FTSE World Europe ex UK</i>	6.49	6.19	0.30
North America	<i>FTSE World North America</i>	5.85	5.45	0.40
Japan	<i>FTSE World Japan</i>	12.98	14.96	-1.98
Pacific Basin ex Japan	<i>FTSE AWI Developed Asia Pacific (ex Japan)</i>	3.19	2.57	0.62
Emerging Markets	<i>FTSE AWI Emerging Markets</i>	9.25	11.57	-2.32
Fixed Income				
UK Corporate Bonds	<i>iBoxx Sterling Non-Gilts</i>	2.43	2.72	-0.29
UK Government Bonds	<i>FTSE UK Government All Stocks</i>	2.44	2.75	-0.31
UK Index Linked Bonds	<i>FTSE UK Government Linked Gilts</i>	3.44	3.44	0.00
Total WCC Fund				
	<i>WCC Total Fund Benchmark</i>	5.47	5.15	0.32

Source: Russell Mellon

3.2 Overall the fund out-performed the benchmark by 0.32%. There was out-performance in four asset classes, and equal performance in one asset class.

- UK Equities (38.2% of the fund) performed 1.10% above the benchmark
- European Equities (17.8% of the fund) performed 0.30% above the benchmark
- North American Equities (10.8% of the fund) performed 0.40% above the benchmark
- Pacific (ex Japan) Equities (2.1% of the fund) performed 0.62% above the benchmark
- UK Index Linked Bonds (4.2% of the fund) performed equal to the benchmark

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

- Japanese Equities (6.2% of the fund) performed 1.98% below the benchmark
- Emerging Markets (2.9% of the fund) performed 2.32% below the benchmark
- UK Corporate Bonds (8.4% of the fund) performed 0.29% above the benchmark
- UK Government Bonds (8.1% of the fund) performed 0.31% above 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 December 2005 were:

Manager	Benchmark Measure	Q/E Dec 2005	Benchmark	Variance
		%	%	%
Barclays	<i>BGI Benchmark</i>	5.13	5.04	0.09
MFS	<i>Global Equity Benchmark</i>	6.69	7.20	-0.51
State Street	<i>FTSE All-Share</i>	6.24	4.27	1.97
Threadneedle	<i>FTSE All-Share</i>	5.07	4.27	0.80
UBS (Global Equities)	<i>Global Equity Benchmark</i>	7.05	7.69	-0.64
UBS (Fixed Interest)	<i>UBS UK Bond Benchmark</i>	2.33	2.73	-0.40
Total	<i>WCC Total Fund Benchmark</i>	5.47	5.15	0.32

Table 3: Performance by Fund Manager

Source: Russell Mellon

3.5 Overall the fund out-performed its overall benchmark by 0.32%. During the quarter, Barclays, State Street, and Threadneedle out-performed their benchmarks. However, MFS, UBS (Fixed Interest) 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

Manager	Variance Q/E Mar 05 %	Variance Q/E June 05 %	Variance Q/E Sept 05 %	Variance Q/E Dec 05 %
Barclays	0.04	-0.07	0.26	0.09
MFS	-0.41	-2.00	-0.67	-0.51
State Street	-0.65	-0.50	0.82	1.97
Threadneedle	-1.14	-0.95	0.77	0.80
UBS (Global Equities)	-0.44	-0.13	-1.46	-0.64
UBS (Fixed Interest)	0.06	-0.19	0.27	-0.40
Total	-0.40	-0.60	0.16	0.32

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
Strategic Director of
Resources

Shire Hall
Warwick
February 2006