

AGENDA MANAGEMENT SHEET

Name of Committee Pension Fund Investment Board

Date of Committee 31 July 2006

Report Title Investment Performance

Summary The report considers pension fund investment performance to 30 June 2006.

For further information please contact: Phil Triggs
Group Manager
(Treasury and Pensions)
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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 Tony Maione, Legal
- 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

Agenda No

Pension Fund Investment Board 31 July 2006

Investment Performance

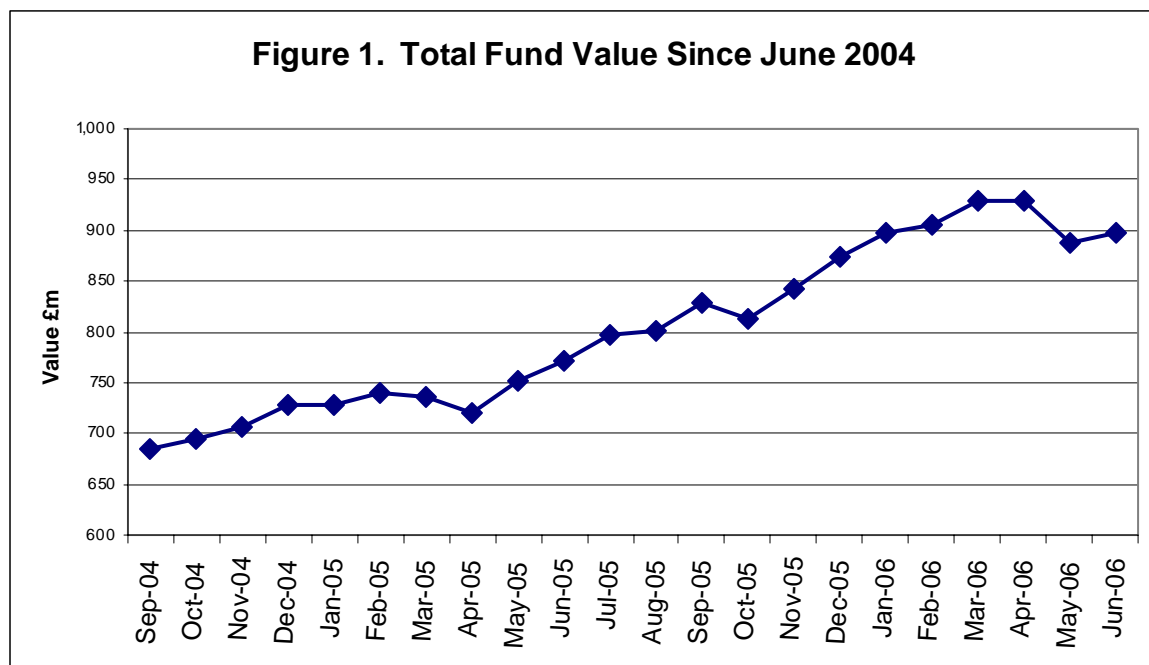
Report of the Strategic Director of Resources

Recommendation

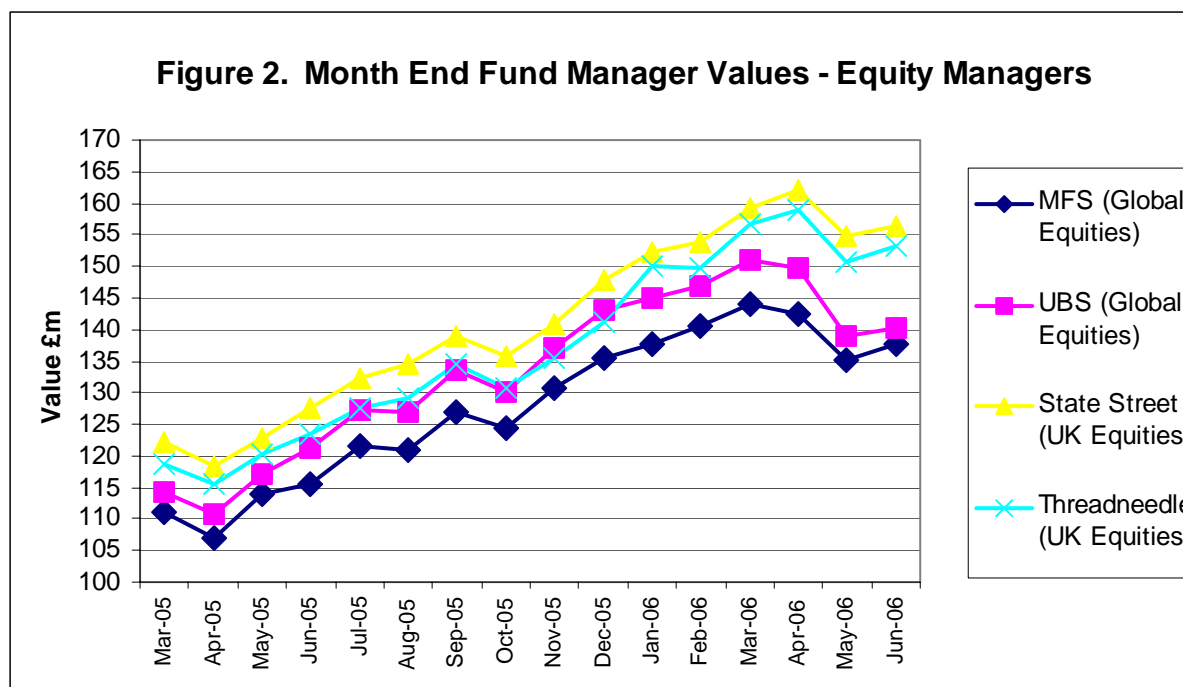
That the Board notes the fund value and performance for the first quarter in 2006/2007 to 30 June 2006.

1. Fund Value to date in 2006/2007

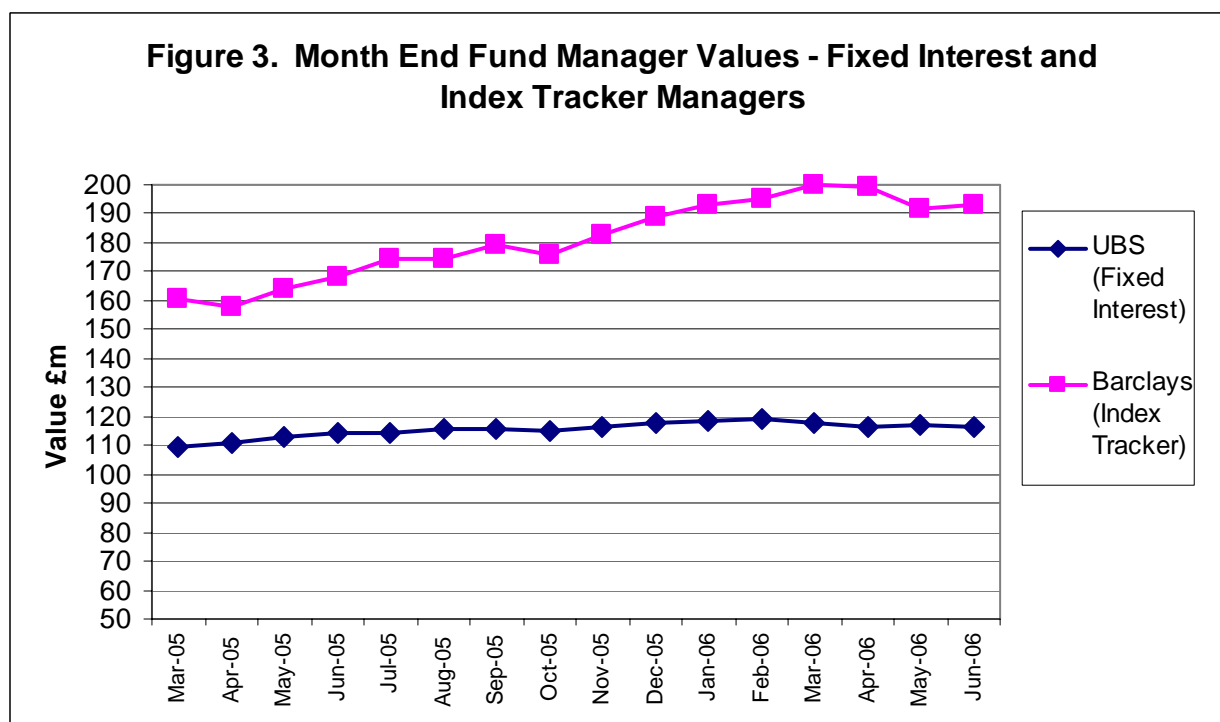
- 1.1 The report to the Board's meeting on 22 May gave the fund position on the fund of £929.6m at 31 March 2006.
- 1.2 Since this date the fund value has fallen due to poor performance from Equities and Gilts. The fund value dipped to £888.4m at 31 May 06 before improving slightly to £897.2m at 30 June 2006.



1.3 The value of the portfolios invested with the equity managers since December 2004 is shown in Figure 2. All managers have seen an increase in portfolio values since September 2004.



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



2. Fund Asset Allocation

2.1 The asset allocation of the fund as at 30 June 2006 is as follows:

Table 1: Asset Allocation

Asset Class		Q/E Jun 2006	Fund policy	Over/under weight
		%	%	%
Equity		79.0	75.0	4.0
	UK	39.3	37.4	1.9
	Europe (ex UK)	18.4	15.1	3.3
	North America	10.5	11.3	-0.8
	Japan	6.0	6.2	-0.2
	Pacific Basin (ex Japan)	1.9	2.2	-0.3
	Emerging Markets/other	2.9	2.8	0.1
Fixed Income		19.9	25.0	-5.1
	UK corporate bonds	8.0	10.0	-2.0
	UK government bonds	7.7	10.0	-2.3
	UK index linked bonds	4.0	5.0	-1.0
	Global fixed income	0.2	0.0	0.2
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, Emerging Markets, Global Fixed Income and Cash and underweight in all other asset classes except Japan, which equalled the fund policy. 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 June 2006 was:

Table 2: Performance by Asset Type

Asset Type	Benchmark Measure	Q/E Jun 2006	Benchmark	Variance
		%	%	%
Equity				
United Kingdom	<i>FTSE All-Share</i>	-2.07	-1.81	-0.26
Europe ex UK	<i>FTSE World Europe ex UK</i>	-4.10	-4.46	0.36
North America	<i>FTSE World North America</i>	-6.91	-7.46	0.55
Japan	<i>FTSE World Japan</i>	-9.79	-10.40	0.61
Pacific Basin ex Japan	<i>FTSE AWI Developed Asia Pacific (ex Japan)</i>	-5.01	-3.37	-1.64
Emerging Markets	<i>FTSE AWI Emerging Markets</i>	-8.99	-10.09	1.10
Fixed Income				
UK Corporate Bonds	<i>iBoxx Sterling Non-Gilts</i>	-0.99	-1.48	0.49
UK Government Bonds	<i>FTSE UK Government All Stocks</i>	-1.04	-1.13	0.09
UK Index Linked Bonds	<i>FTSE UK Government Linked Gilts</i>	-0.65	-0.66	0.01
Total WCC Fund	WCC Total Fund Benchmark	-3.48	-3.43	-0.05

Source: Russell Mellon

3.2 Overall, the fund under-performed the benchmark by 0.05%. There was under-performance in two asset classes:

- UK Equities (39.3% of the fund) performed 0.26% below the benchmark.
- Pacific (ex Japan) Equities (1.9% of the fund) performed 1.64% below the benchmark.

3.3 However, seven asset classes out-performed against their benchmark in the quarter:

- European Equities (18.4% of the fund) performed 0.36% above the benchmark.
- North American Equities (10.5% of the fund) performed 0.55% above the benchmark.
- Japanese Equities (6.0% of the fund) performed 0.60% above the benchmark.
- Emerging Markets (2.9% of the fund) performed 1.1% above the benchmark.

- UK Corporate Bonds (8.0% of the fund) performed 0.49% above the benchmark.
- UK Government Bonds (7.7% of the fund) performed 0.09% above the benchmark.
- UK Index Linked Bonds (4.0% of the fund) performed 0.01% 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 30 June 2006 were:

Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Jun 2006	Benchmark	Variance
		%	%	%
Barclays	<i>BGI Benchmark</i>	-3.52	-3.14	-0.38
MFS	<i>Global Equity Benchmark</i>	-4.49	-6.50	2.01
State Street	<i>FTSE All-Share</i>	-1.89	-1.84	-0.05
Threadneedle	<i>FTSE All-Share</i>	-2.32	-1.84	-0.48
UBS (Global Equities)	<i>Global Equity Benchmark</i>	-7.23	-6.77	-0.46
UBS (Fixed Interest)	<i>UBS UK Bond Benchmark</i>	-1.02	-1.16	0.14
Total	<i>WCC Total Fund Benchmark</i>	-3.48	-3.43	-0.05

Source: Russell Mellon

3.5 Overall, the fund under-performed its overall benchmark by 0.05%. During the quarter MFS and UBS (Fixed Interest) out-performed their benchmarks. However Barclays, State Street, Threadneedle and UBS (Global Equities) failed to meet their benchmarks.

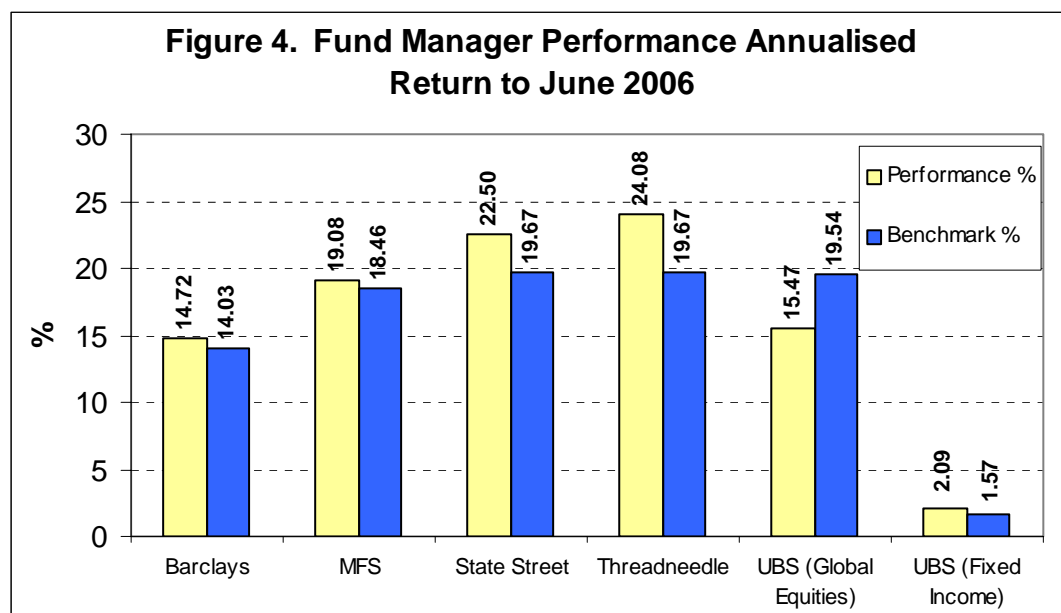
3.6 Twelve months data on the performance of the new managers is available. The performance of managers against their benchmark over this period is shown below.

Table 4: Fund Manager Performance to Date

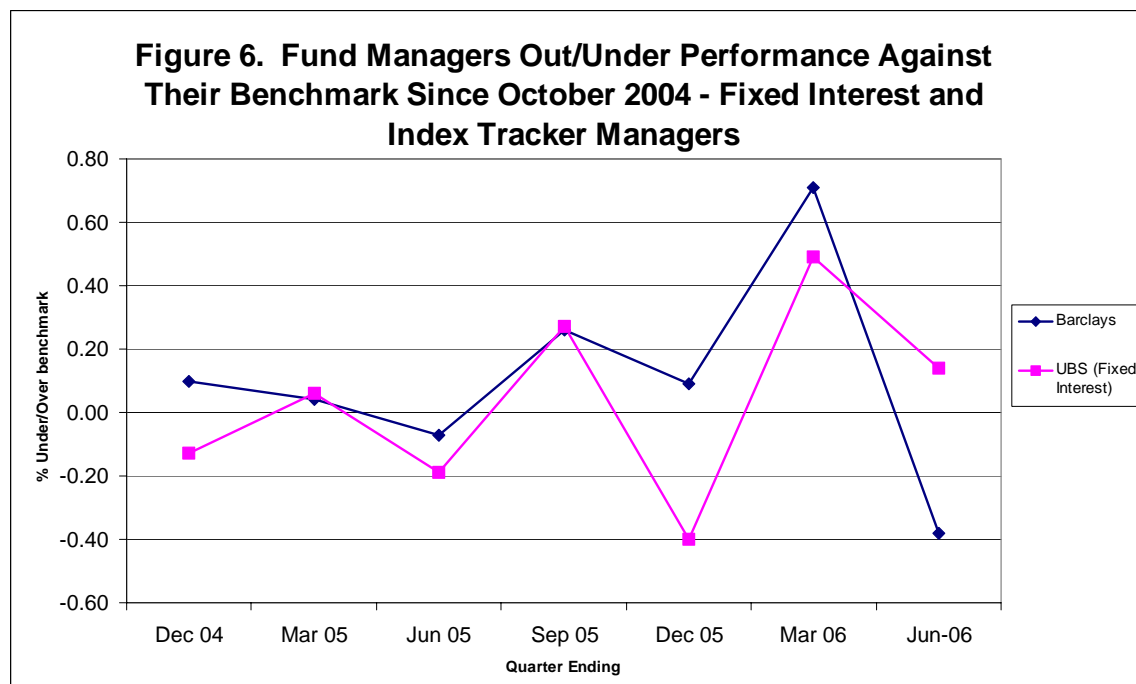
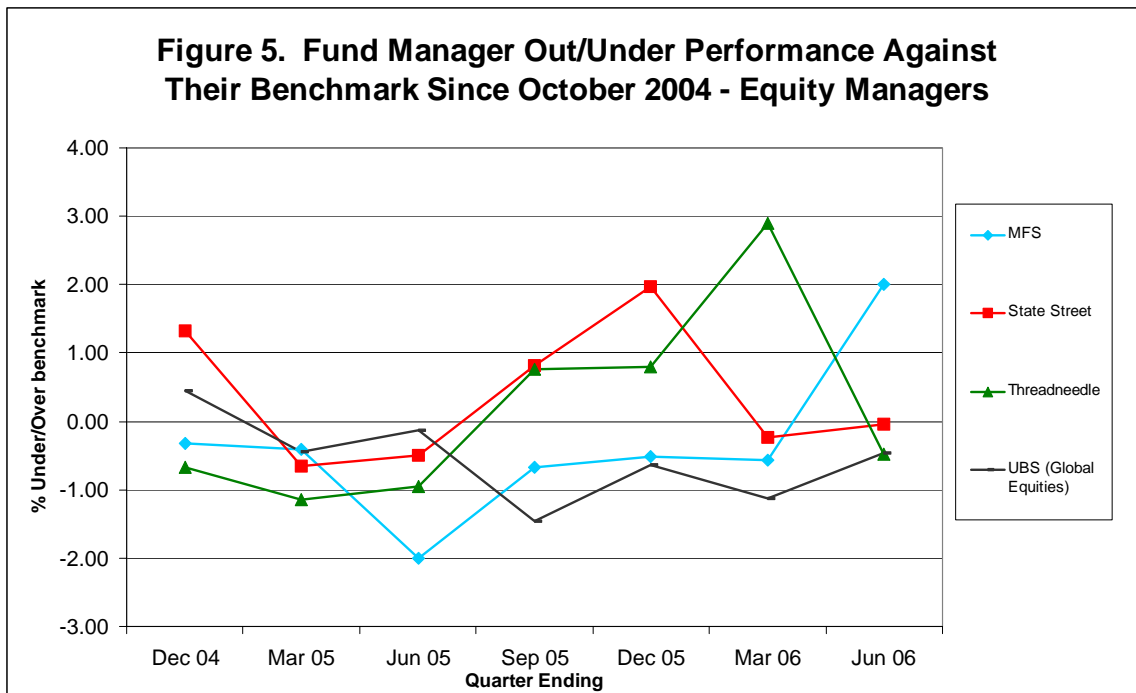
Manager	Variance Q/E Sept 05	Variance Q/E Dec 05	Variance Q/E Mar 06	Variance Q/E Jun 06
	%	%	%	%
Barclays	0.26	0.09	0.71	-0.38
MFS	-0.67	-0.51	-0.56	2.01
State Street	0.82	1.97	-0.24	-0.05
Threadneedle	0.77	0.80	2.89	-0.48
UBS (Global Equities)	-1.46	-0.64	-1.12	-0.46
UBS (Fixed Interest)	0.27	-0.40	0.49	0.14
Total	0.16	0.32	0.60	-0.05

Source: Russell Mellon

- 3.7 No manager has consistently exceeded their benchmark over all four quarters.
- 3.8 The Annualised return for the fund managers to June 2006 is summarised in Figure 4.



3.9 Fund Manager performance against their benchmark since October 2004 is summarised in Figure 5 and Figure 6.



DAVID CLARKE
Strategic Director of Resources

Shire Hall
Warwick
July 2006

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
Total	100.0	

* 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	
Total	100.0		

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	
Total	100.0		

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.

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
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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	
Total	100.0		

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Total	100.0		

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