

AGENDA MANAGEMENT SHEET

Name of Committee Pension Fund Investment Board

Date of Committee 20 November 2006

Report Title Investment Performance

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

For further information please contact: Phil Triggs
Group Manager
(Treasury and Pensions)
Tel: 01926 412227
philtriggs@warwickshire.gov.uk
No.

Would the recommended decision be contrary to the Budget and Policy Framework?

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

Pension Fund Investment Board 20 November 2006

Investment Performance

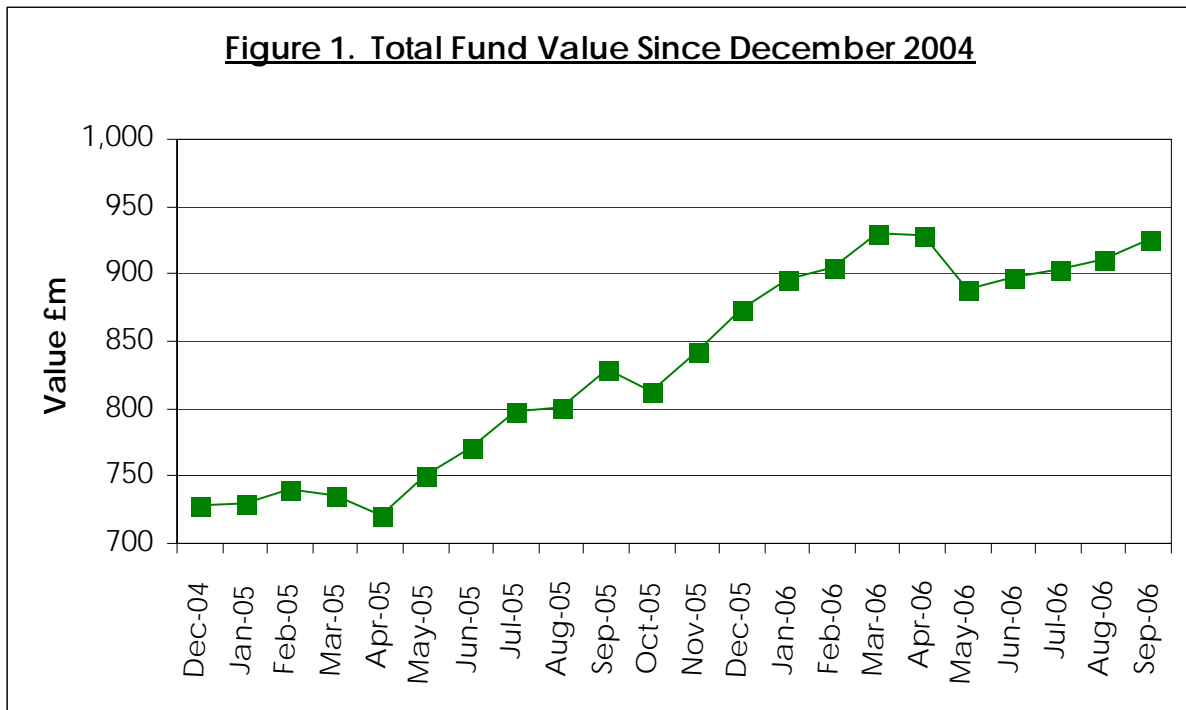
Report of the Strategic Director of Resources

Recommendation

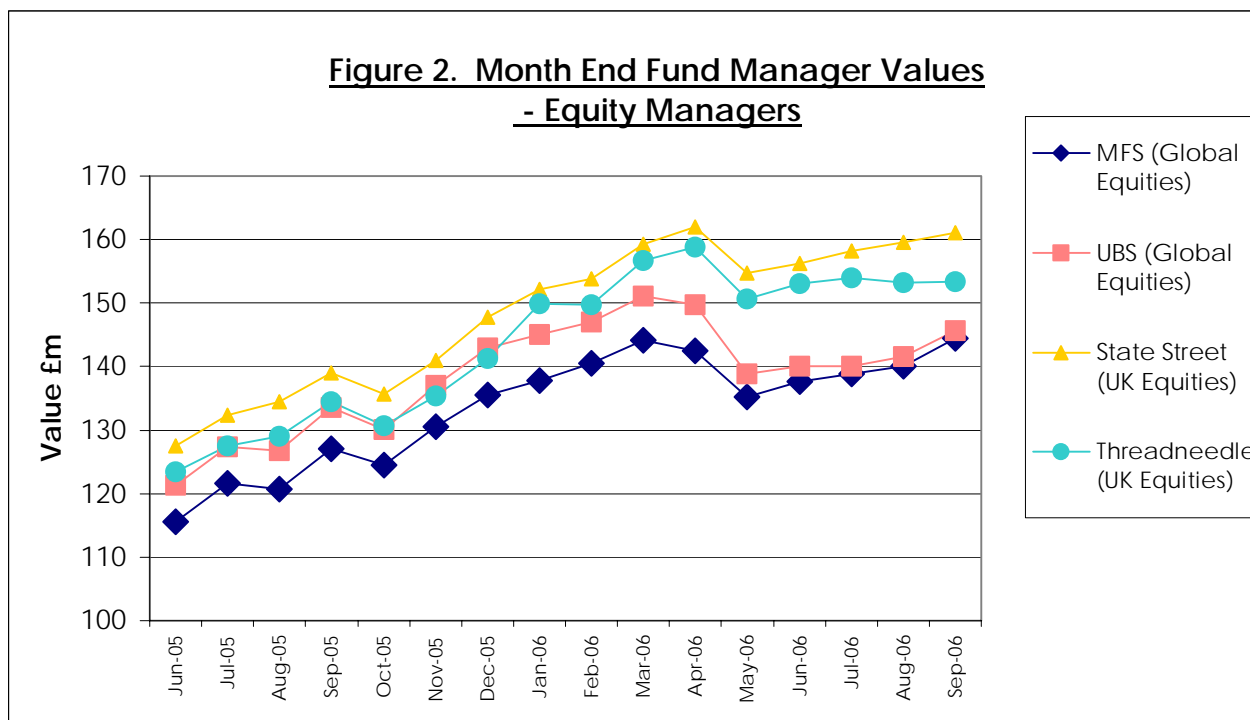
That the Board notes the fund value and performance for the second quarter in 2006/2007 to 30 September 2006.

1. Fund Value to date in 2006/2007

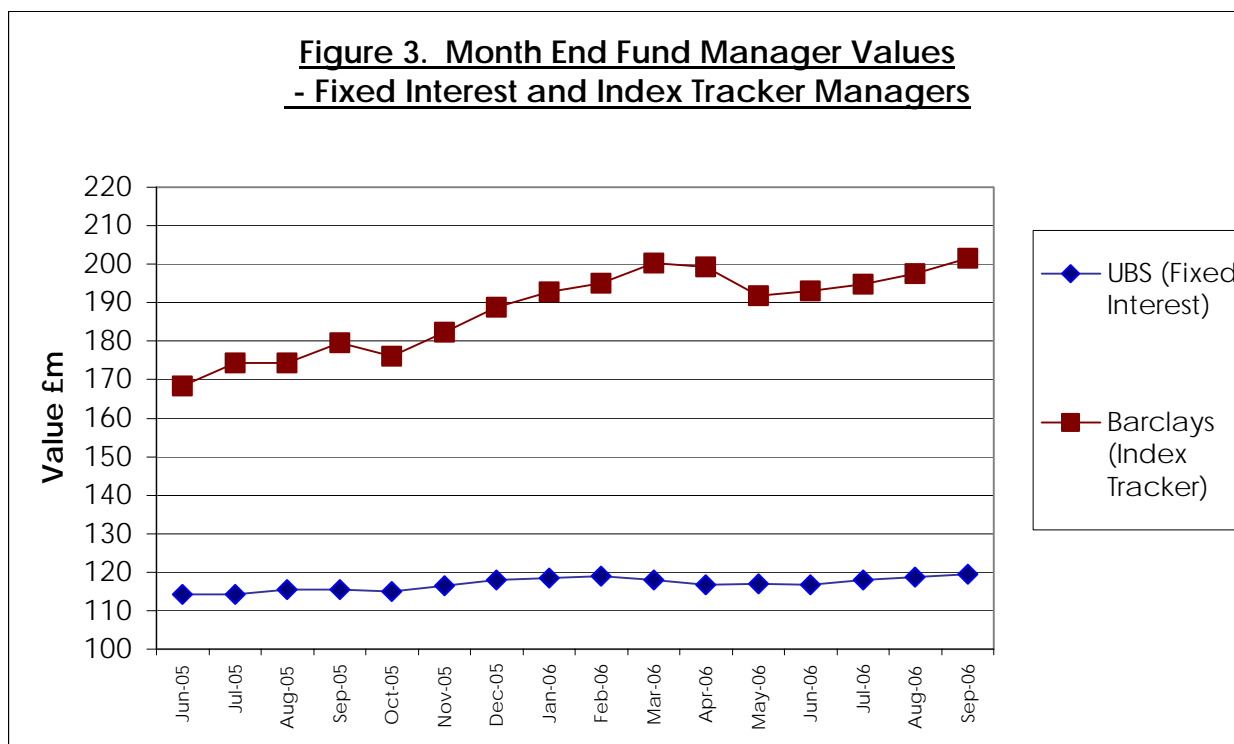
- 1.1 The report to the Board's meeting on 31 July gave the fund position on the fund of £897.2m at 30 June 2006.
- 1.2 Since this date the fund value has risen due to good performance from Equities and Pooled Funds. The fund value was £925.8m at 30 September 2006



1.3 The value of the portfolios invested with the equity managers is shown in Figure 2.



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



- 1.5 Threadneedle Investments and SSGA will provide detailed performance reports in their presentations to the Investment Board.

2. Fund Asset Allocation

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

Table 1: Asset Allocation

Asset Class	Q/E Sep 2006	Fund policy	Over/under weight
	%	%	%
Equity	78.7	75.0	3.7
UK	39.6	37.4	2.2
Europe (ex UK)	18.1	15.1	3.0
North America	10.9	11.3	-0.4
Japan	5.4	6.2	-0.8
Pacific Basin (ex Japan)	2.0	2.2	-0.2
Emerging Markets/other	2.7	2.8	-0.1
Fixed Income	20.2	25.0	-4.8
UK corporate bonds	8.1	10.0	-1.9
UK government bonds	7.8	10.0	-2.2
UK index linked bonds	4.1	5.0	-0.9
Global fixed income	0.2	0.0	0.2
Cash	1.1	0.0	1.1
Total	100.0	100.0	0.0

Source: Mellon

- 2.1 Overall, at 30 September 2006, the fund was overweight in UK Equities, European Equities, and Global Fixed Income. The fund was underweight in all other asset classes. Necessary adjustments to the 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 2006 was:

Table 2: Performance by Asset Type

Asset Type	Benchmark Measure	Q/E Sep 2006	Benchmark	Variance
		%	%	%
Equity				
United Kingdom	<i>Total Fund UK Composite</i>	1.96	3.60	-1.64
Europe ex UK	<i>FTSE AW Dev Europe ex UK</i>	5.62	5.61	+0.01
North America	<i>FTSE AW Dev North America</i>	5.00	4.25	+0.75
Japan	<i>FTSE World Japan</i>	-0.41	-1.81	+1.40
Pacific Basin ex Japan	<i>FTSE AW Developed Asia Pacific (ex Japan)</i>	7.75	4.02	+3.73
Emerging Markets	<i>Total Fund Emerging Markets Composite</i>	5.74	4.17	+1.57
Fixed Income				
UK Corporate Bonds	<i>iBoxx Sterling Non-Gilts</i>	2.48	2.54	-0.06
UK Government Bonds	<i>FTSE UK Government All Stocks</i>	2.58	2.73	-0.15
UK Index Linked Bonds	<i>FTSE UK Government Linked Gilts</i>	4.02	4.02	0.00
Total WCC Fund	WCC Total Fund Benchmark	3.18	3.50	-0.32

Source: Mellon

3.2 Overall, the fund under-performed the benchmark by 0.32%. There was under-performance in three asset classes:

- UK Equities (39.6% of the fund) performed 1.64% below the benchmark.
- UK Corporate Bonds (8.1% of the fund) performed 0.06% below the benchmark.
- UK Government Bonds (7.8% of the fund) performed 0.15% below the benchmark.

3.3 However, six asset classes out-performed or equalled their benchmark in the quarter:

- European Equities (18.1% of the fund) performed 0.01% above the benchmark.
- North American Equities (10.9% of the fund) performed 0.75% above the benchmark.
- Japanese Equities (5.4% of the fund) performed 1.40% above the benchmark.

- Emerging Markets (2.7% of the fund) performed 1.57% above the benchmark.
- Pacific Basin (ex Japan) (2.0% of the fund) performed 3.73% above the benchmark.
- UK Index Linked Bonds (4.1% of the fund) performed equal to 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 2006 were:

Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Sep 2006 %	Benchmark %	Variance %
Barclays	<i>BGI Benchmark</i>	4.32	4.20	+0.12
MFS	<i>Global Equity Benchmark</i>	4.94	3.51	+1.43
State Street	<i>FTSE All-Share</i>	3.02	3.65	-0.63
Threadneedle	<i>FTSE All-Share</i>	0.17	3.65	-3.48
UBS (Global Equities)	<i>Global Equity Benchmark</i>	3.99	3.05	+0.94
UBS (Fixed Interest)	<i>UBS UK Bond Benchmark</i>	2.44	2.63	-0.19
Total	<i>WCC Total Fund Benchmark</i>	3.18	3.50	-0.32

Source: Mellon

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

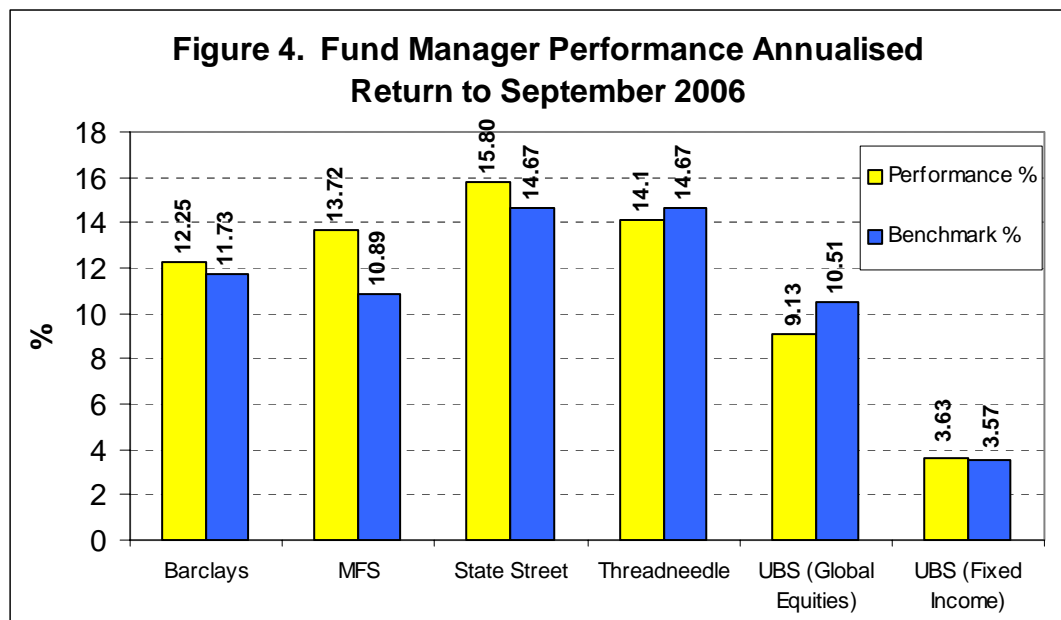
3.6 Twelve months data on the performance of the new managers is available. The performance of managers against their benchmark over this period is shown below.

Table 4: Fund Manager Performance to Date

Manager	Variance Q/E Dec 05 %	Variance Q/E Mar 06 %	Variance Q/E Jun 06 %	Variance Q/E Sep 06 %
Barclays	0.09	0.71	-0.38	0.12
MFS	-0.51	-0.56	2.01	1.43
State Street	1.97	-0.24	-0.05	-0.63
Threadneedle	0.80	2.89	-0.48	-3.48
UBS (Global Equities)	-0.64	-1.12	-0.46	0.94
UBS (Fixed Interest)	-0.40	0.49	0.14	-0.19
Total	0.32	0.60	-0.05	-0.32

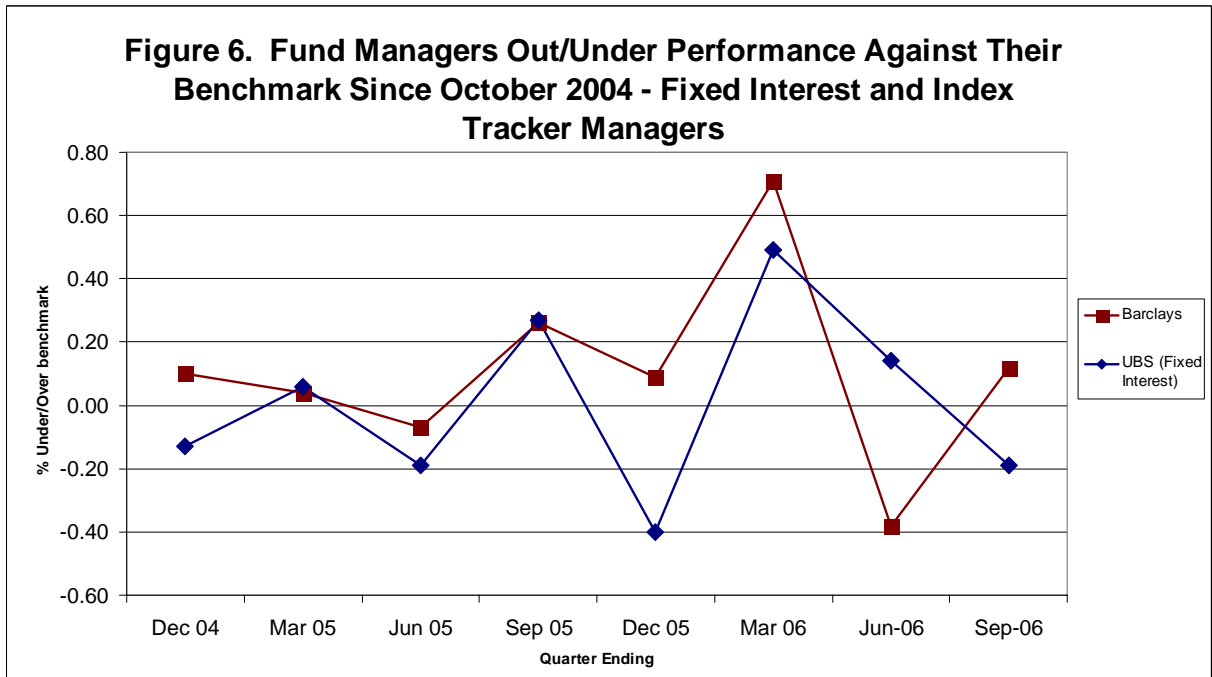
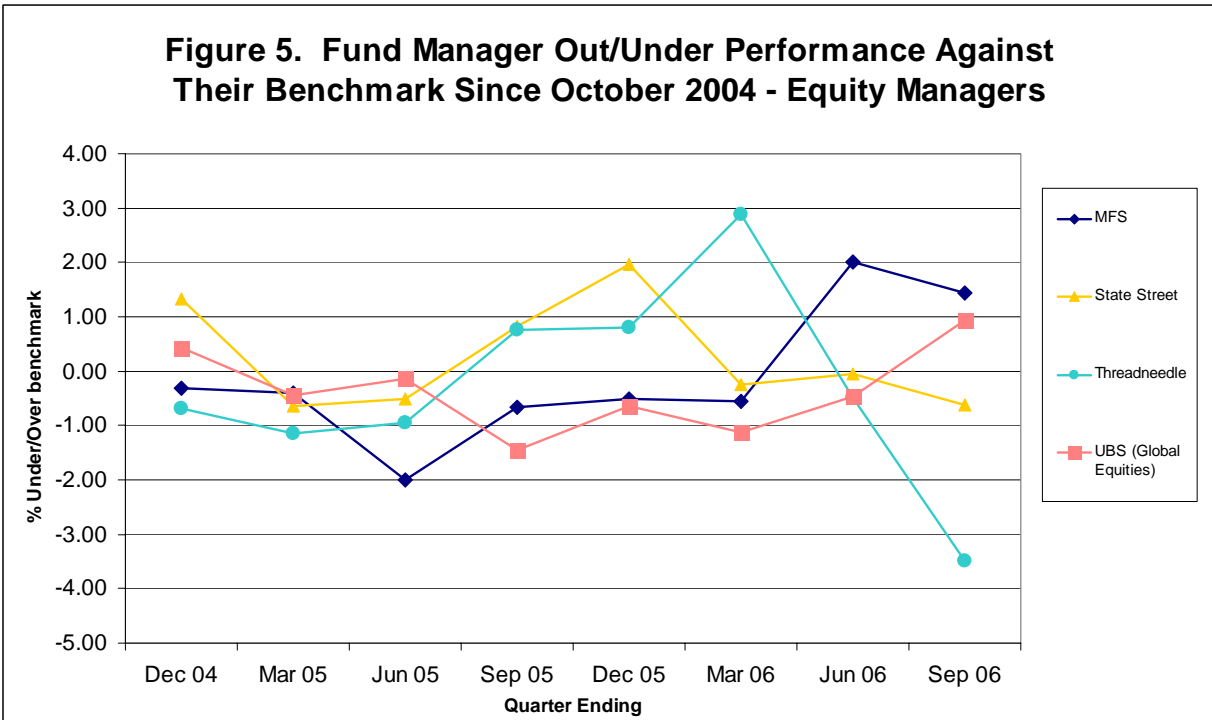
Source: Mellon

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



Source: Mellon

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



Source: Mellon

DAVID CLARKE
Strategic Director of Resources

Shire Hall
Warwick
November 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 (Fixed Income)

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.