

PENSIONS COMMITTEE – 25 NOVEMBER 2004

PENSION FUND INVESTMENT REPORT TO 30 SEPTEMBER 2004

SUMMARY

This report notes the performance of the Pension Fund for the 6 months to 30 September 2004. The relative risk profiles adopted by each manager are also reported. The proposed new arrangements for UBS' custody service are explained.

RECOMMENDATIONS That

- (1) The investment report be noted.
- (2) JP Morgan be appointed as custodian for the assets invested by UBS.

1. Introduction

This report notes the performance and investment strategies of each fund manager and the position for the Fund in total. This report summarises performance for the period from April to September 2004.

Each fund manager's report for the period has been circulated with this agenda, together with a short paper from UBS on their actions on corporate governance and socially responsible investment.

Both fund managers will be presenting to the meeting and there will be an opportunity to question them on their current investment strategies and prospects for the future.

2. UBS Custody Service

The assets of the pension fund are held not by the Council but by a separate custodian in the Council's name. UBS have recently informed the Council that as from 1 April 2005 they will no longer provide an "in-house" custody service through a nominee arrangement. This is consistent with the majority of fund management companies who generally use external custodians. This service, the cost of which is currently included in the management fee, will from that date be provided by JP Morgan, who are one of the largest global custodians.

JP Morgan have been proposed by UBS after a rigorous selection process carried out by independent consultants on behalf of their clients. Officers have visited JP Morgan and are carrying out due diligence checks before the contract is signed. The cost of this service is estimated at around £17,000 per annum or 0.01% of fund value.

3. Overall Fund Performance

The total Fund value has risen from £290.4m at 31 March 2004 to £300.3m as at the end of September 2004. The Fund showed a return of +3.1% compared to a benchmark return of +3.0%. Returns during the period were subdued, but positive, as global markets continued to trade sideways with little movement in either direction.

4. Investment Profiles and Relative Risk Target

Table 1 shows the profile of the portfolio as at 30 September 2004.

Table 1: Investment Profile

	Fund Benchmark %	Newton Profile %	UBS Profile %	Total Fund Profile %
UK Equities	36	36	37	36
Overseas Equities	24	26	25	26
UK Fixed Interest Gilts	16	12	14	13
Overseas Bonds	0	3	1	2
Index Linked	8	7	5	6
Corporate Bonds	16	15	16	15
Property	0	0	1	1
Cash	0	1	1	1
Total	100	100	100	100

Source : WM Company

Table 1 compares the managers' asset allocation against the Fund Specific Benchmark. The table shows the position that both Managers are taking on asset allocation compared to the benchmark; the most striking feature being Newton's preference for Overseas Bonds and Overseas Equities while maintaining an underweight position in UK Gilts, and UBS's underweight position in Index Linked stock and UK Gilts.

The Fund's Statement of Investment Principles includes a series of control ranges within which the Managers must operate when investing the Fund's assets. Table 2 compares the current investment profiles for the Fund with the control ranges approved by the Pensions Committee.

Table 2: Control Ranges

	Asset Allocation Relative to the Fund Benchmark as at 30th September 2004			
	Newton Profile %	UBS Profile %	Total Fund Profile %	Control Ranges %
UK Equities	0	+1	0	+/-7.5
Overseas Equities	+2	+1	+2	+/-7.5
UK Fixed Interest Gilts	-4	-2	-3	+/-7.5

Overseas Bonds	+3	+1	+2	Up to 10
Index Linked	-1	-3	-2	+/-7.5
Corporate Bonds	-1	0	-1	+/-7.5
Property	0	+1	+1	Up to 5
Cash	+1	+1	+1	Up to 5

Source : WM Company, UBS , and Newton

The table shows that the managers are operating within the approved control ranges.

The relative risk of that part of the Fund managed by UBS was 1.3% at the end of September, whilst the relative risk reported by Newton was 1.8%. Both are within the approved relative risk target of 3.5%.

Table 3 below shows Asset Category Returns for the last six months.

Table 3 : Asset Category Returns

	Benchmark Return %	Newton Return %	UBS Return %	Total Fund Return %
UK Equities	+5.1	+5.8	+4.2	+5.0
Overseas Equities	+1.1	+0.3	+1.9	+1.1
Gilts	+2.1	+2.1	+2.2	+2.1
Overseas Bonds	+1.4	+6.9	+4.1	+6.1
Index Linked	+2.3	+2.2	+2.4	+2.3
Corporate Bonds	+2.5	+2.5	+2.4	+2.5
Property	0	0	+9.0	+9.0
Cash	0	+4.1	+2.2	+3.1
Total	+3.0	+3.2	+3.0	+3.1

Source : WM Company, Newton, UBS

5. UBS Investment Report

During the last six months UBS moved their asset allocation to ensure adherence to the Fund Specific Benchmark. The value of assets managed by UBS rose from £155.9m to £161.0m during the six month period and showed a return of +3.0% compared to a benchmark return of +2.9%.

6. Newton Investment Report

During the six months Newton also moved their asset allocation to ensure adherence to the Fund Specific Benchmark. The value of assets managed by Newton rose from £134.5m to £139.3m during the period and showed a return of +3.2% compared to the benchmark return of +3.2%.

Local Government Act 1972 – section 100d
List of background documents

UBS Investment Reports – March 2004 and September 2004

Newton Investment Reports – March 2004 and September 2004

WM Company Performance Reports – March 2004 and September 2004

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