

PENSION FUND INVESTMENT REPORT TO 31 DECEMBER 2005

SUMMARY

This report notes the performance of the Pension Fund for the 9 months to 31 December 2005. The relative risk profiles adopted by each manager are also reported.

REPORTED FOR INFORMATION

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 December 2005.

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. Overall Fund Performance

The total Fund value has risen from £323.8m at 31 March 2005 to £373.6 as at the end of December 2005. The Fund showed a return of +15.8% compared to a benchmark return of +16.4%. Returns during the period were strong, as the economy continued to grow and equity markets performed well. However the bond markets did not produce significant returns due to low expectations of change in inflation and interest rates.

3. Investment Profiles and Relative Risk Target

Table 1 shows the profile of the portfolio as at 31 December 2005.

Table 1: Investment Profile

	Fund Benchmark %	Newton Profile %	UBS Profile %	Total Fund Profile %
UK Equities	36	34	37	36
Overseas Equities	24	30	25	27
UK Fixed Interest Gilts	16	13	14	14
Overseas Bonds	n/a	3	2	3
Index Linked	8	7	5	5
Corporate Bonds	16	9	15	12
Property	n/a	0	0	0
Cash	n/a	4	2	3
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 Equities while maintaining an underweight position in Corporate Bonds and UK Gilts and UBS's underweight position in UK Gilts and Index Linked stock.

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 31st December 2005			
	Newton Profile %	UBS Profile %	Total Fund Profile %	Control Ranges %
UK Equities	-2	+1	0	+/-7.5
Overseas Equities	+6	+1	+3	+/-7.5
UK Fixed Interest Gilts	-3	-2	-2	+/-7.5
Overseas Bonds	+3	+2	+3	Up to 10
Index Linked	-1	-3	-3	+/-7.5
Corporate Bonds	-7	-1	-4	+/-7.5
Property	0	0	0	Up to 5
Cash	+4	+2	+3	Up to 5

Source : WM Company, UBS and Newton

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

UBS reported that the relative risk of their part of the Fund to be 1.3% at the end of December whilst Newton reported 0.9%. Both are within the approved relative risk target of 3.5%.

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

Table 3 : Asset Category Returns

	Benchmark Return %	Newton Return %	UBS Return %	Total Fund Return %
UK Equities	+18.4	+18.3	+15.3	+16.7
Overseas Equities	+27.2	+26.6	+26.3	+26.4
Gilts	+8.0	+8.3	+7.6	+7.9
Overseas Bonds	n/a	+7.1	+9.2	+9.8
Index Linked	+9.1	+8.4	+7.9	+8.2
Corporate Bonds	+8.6	+8.7	+8.3	+8.4
Property	n/a	n/a	n/a	n/a
Cash	n/a	+2.9	+3.5	+3.1
Total	+16.4	+16.9	+14.9	+15.8

Source : WM Company, Newton, UBS

4. UBS Investment Report

During the last nine months the value of assets managed by UBS rose from £173.3m to £198.4m and showed a return of +14.9% compared to the fund benchmark return of +16.4%.

5. Newton Investment Report

During the last nine months the value of assets managed by Newton rose from £150.5m to £175.2m and showed a return of +16.9% compared to the benchmark return of +16.4%.

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

UBS Investment Reports –December 2005

Newton Investment Reports – December 2005

WM Company Performance Reports – March 2005 and December 2005

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