

PENSIONS COMMITTEE – 8 JUNE 2005

PENSION FUND INVESTMENT REPORT TO 31 MARCH 2005

SUMMARY

This report notes the performance of the Pension Fund for the 6 months to 31 March 2005. It also provides a detailed performance and asset allocation analysis during the period October 2004 to March 2005. The relative risk profiles adopted by each manager are also reported.

REPORTED FOR INFORMATION

1. Introduction

This report contains both individual reports on the performance and investment strategies of each fund manager and on the position for the Fund in total. This report summarises performance for the period from October 2004 to March 2005, and provisional returns for the year 2004/05.

Each fund manager's report has been circulated with this agenda.

Both 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 £300.0m at 30 September 2004 to £323.8m as at the end of March 2005. The Fund showed a return of +7.9% compared to the benchmark return of +7.1% during the October to March period.

The Fund had a good year and showed a return of +11.3% compared to the benchmark return of +10.3%. The Fund, therefore, outperformed by 0.8% for the six months from October 2004 to March 2005 and outperformed by 1.0% for the full year.

A more detailed report on performance for the whole of last financial year will be presented to the Committee at its next meeting by the performance measurement company, WM.

3. Investment Profiles and Relative Risk Target

Table 1 shows the asset allocation of the portfolio as at 31 March 2005:

Table 1: Asset Allocation

| | Fund Benchmark % | Newton Profile % | UBS Profile % | Total Fund Profile % |
|-------------------|-------------------------|-------------------------|----------------------|-----------------------------|
| UK Equities | 36 | 36 | 37 | 37 |
| Overseas Equities | 24 | 28 | 24 | 26 |
| Gilts | 16 | 12 | 15 | 13 |
| Overseas Bonds | 0 | 3 | 2 | 2 |
| Index Linked | 8 | 6 | 5 | 5 |
| Corporate Bonds | 16 | 12 | 15 | 14 |
| Property | 0 | 0 | 1 | 1 |
| Cash | 0 | 3 | 1 | 2 |
| Total | 100 | 100 | 100 | 100 |

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. These ranges are expressed as a variation from the Fund Specific Benchmark, details of which are shown in Table 1 under the heading Fund Benchmark.

Table 2 compares the current investment profiles for the Fund with the control ranges approved by the Pensions Committee.

Table 2: Control Ranges Variations

| | Asset Allocation Relative to the Fund Benchmark as at 31st March 2005 | | | |
|-------------------|--|----------------------|-----------------------------|-------------------------|
| | Newton Profile % | UBS Profile % | Total Fund Profile % | Control Ranges % |
| UK Equities | 0 | +1 | +1 | +/-7.5 |
| Overseas Equities | +4 | 0 | +2 | +/-7.5 |
| Gilts | -4 | -1 | -3 | +/-7.5 |
| Overseas Bonds | +3 | +2 | +2 | Up to 10 |
| Index Linked | -2 | -3 | -3 | +/-7.5 |
| Corporate Bonds | -4 | -1 | -2 | +/-7.5 |
| Property | 0 | +1 | +1 | Up to 5 |
| Cash | +3 | +1 | +2 | Up to 5 |

Source : WM Company

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 1.2% at the end of March, whilst the relative risk reported by Newton was 1.3%. 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 | +9.9 | +9.4 | +11.8 | +10.7 |
| Overseas Equities | +9.1 | +12.3 | +8.3 | +10.2 |
| Gilts | +2.9 | +3.1 | +3.2 | +3.1 |
| Overseas Bonds | n/a | +9.9 | +2.8 | +8.0 |
| Index Linked | +3.0 | +2.7 | +3.1 | +2.9 |
| Corporate Bonds | +3.9 | +4.2 | +3.8 | +4.0 |
| Property | n/a | 0 | +6.6 | +6.6 |
| Cash | n/a | +0.4 | +2.4 | +1.8 |
| Total | +7.1 | +8.2 | +7.7 | +7.9 |

Source : WM Company, Newton, UBS

4. UBS Investment Report

During the last six months the value of assets managed by UBS rose from £160.7m to £173.27m and showed a return of +7.7% compared to a benchmark return of +6.8%.

For the year, UBS returned +11.0% against a benchmark return of +9.9%.

5. Newton Investment Report

During the last six months the value of assets managed by Newton rose from £139.3m to £150.5m and showed a return of +8.2% compared to the benchmark return of +7.2%.

For the year Newton returned +11.7% against a benchmark return of +10.7%.

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

UBS Investment Reports – September 2004 and March 2005

Newton Investment Reports – September 2004 and March 2005

WM Company Performance Reports – September 2004 and March 2005

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