

PENSIONS COMMITTEE – 18 DECEMBER 2007

PENSION FUND INVESTMENT REPORT TO 30 SEPTEMBER 2007

SUMMARY

This report notes the performance of the balanced fund managers (Newton and UBS) for the 6 months to 30 September 2007. 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 balanced fund manager and on their combined performance. This report summarises performance for the period from April 2007 to September 2007.

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 views on prospects for the future.

2. Overall Balanced Manager Fund Performance

The total Fund value managed by UBS and Newton has risen from £386.7m at 31 March 2007 to £403.5m as at the end of September 2007. The total balanced Fund showed a return of +4.7% compared to the benchmark return of +4.0% during the April to September period.

3. Investment Profiles and Relative Risk Target

Table 1 shows the profile of the portfolio as at 30 September 2007.

Table 1: Investment Profile

	Balanced Manager Benchmark %	Newton Profile %	UBS Profile %
UK Equities	39	39	38
Overseas Equities	31	36	31
Gilts	12	7	8
Overseas Bonds	0	3	0
Index Linked	6	6	6
Corporate Bonds	12	6	12
Property	0	0	0
Cash/Other	0	3	5
Total	100	100	100

Source : WM Company

Table 1 compares the managers' asset allocations 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 features being Newton's underweight position in corporate bonds and gilts in preference for overseas equities and cash and UBS's underweight position in gilts with a preference for cash/other investments which include the Global Tactical Asset Allocation.

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 2007		
	Newton Profile %	UBS Profile %	Control Ranges %
UK Equities	0	-1	+/-10
Overseas Equities	+5	0	+/-10
UK Fixed Interest Gilts	-5	-4	+/-10
Overseas Bonds	+3	0	Up to 10
Index Linked	0	0	+/-10
Corporate Bonds	-6	0	+/-10
Property	0	0	Up to 5
Cash/Other	+3	+5	Up to 10

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 2.1% at the end of September, whilst the relative risk reported by Newton was 1.4%. 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 Balanced Fund Return
UK Equities	2.7	6.0	1.9	4.0
Overseas	8.2	10.3	6.6	8.4
Gilts	1.6	1.9	2.3	2.1
Overseas Bonds	n/a	-0.8	n/a	-0.5
Index Linked	3.5	3.3	3.2	3.3
Corporate Bonds	-0.4	-0.4	-1.4	-1.1
Property	n/a	n/a	n/a	n/a
Cash/Other	n/a	3.9	3.3	3.5
Total	4.0	6.5	3.0	4.7

Source : WM Company, Newton, UBS

For some categories returns are not shown, or may not appear consistent, because the managers were not invested in the asset throughout the whole period although they were invested in the category at the end of the period.

4. UBS Investment Report

During the last six months the value of assets managed by UBS rose from £204.2m to £209.7m and showed a return of +3.0% compared to their benchmark return of +4.0%.

For the year to end September 2007, UBS returned +7.8% against a benchmark return of +10.2%. Over the last three years they have underperformed their benchmark by 1.3% per annum.

5. Newton Investment Report

During the last six months the value of assets managed by Newton rose from £182.5m to £193.8m and showed a return of +6.5% compared to their benchmark return of +4.0%.

For the year to end September 2007, Newton returned +12.9% against a benchmark return of +10.2%. Over the last three years Newton have outperformed their benchmark by 1.2% per annum.

Local Government Act 1972 – section 100d

List of background documents

UBS Investment Reports –September 2007

Newton Investment Reports – September 2007

WM Company Performance Reports – March 2007 and September 2007

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