

PENSIONS COMMITTEE – 2 JULY 2007

PENSION FUND INVESTMENT PERFORMANCE 2006/2007

SUMMARY

This report presents a background summary to the presentation that will be made to the Committee by a representative from the performance measurement company, WM, who will attend the meeting to comment more fully on performance.

It also includes the performance report on the managers, covering the last six months.

REPORTED FOR INFORMATION

1. WM Report on Fund Performance 2006/2007

The WM Company has published a report on the Fund's performance for 2006/2007. This document has been circulated with the agenda. A representative from the company will be attending the meeting to provide Members with a short presentation on the report.

The WM Report highlights how each manager has performed during the last year and individual performance by each manager will be brought out by WM in their presentation.

Table 1 below analyses the return over the different market sectors and compares it to the total fund benchmark.

Table 1

	Benchmark Return %	Newton Return %	UBS Return %	Total Fund Return %
UK Equities	+11.1	+10.6	+8.8	+9.6
Overseas Equities	+3.7	+0.8	+1.6	+1.4
Gilts	+0.5	+0.3	+0.6	+0.4
Overseas Bonds	n/a	-5.6	-4.5	-4.7
Index Linked	+3.0	+2.7	n/a	+3.1
Corporate Bonds	+1.3	+1.2	+2.0	+1.7
Property	n/a	n/a	n/a	n/a
Cash	n/a	n/a	n/a	n/a
Sub-total	+5.9	+4.7	+4.4	n/a
		RMF Return %	Partners Return %	
Hedge Funds	+4.6	+5.7	n/a	+5.7
Private Equity	+6.1	n/a	+3.1	+3.1
Total Fund	+5.7	n/a	n/a	+4.4

*n/a : Returns are not applicable to these sectors as the benchmark does not specify any holding, and where amounts are invested they are negligible. In some cases the managers have made more significant investments and the return appropriate to these are shown.

Source: WM Performance Review 2006/2007

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

Bexley's Fund showed a return of 4.4% for the year, against the fund benchmark of 5.7%.

2. Long Term Performance

Over the last three years the fund has underperformed the fund benchmark by 0.4% per annum. Table 2 below gives details on the fund managers' performance against their benchmark.

Table 2

	UBS	Newton	Benchmark
1 year	4.4	4.7	5.9
3 years	11.6	12.9	12.5
10 years	7.6	n/a	7.0

Source: WM Performance Review 2006/2007

4. Investment Profiles and Relative Risk Target

The six monthly report for the pension fund managers is shown as an Appendix to this report.

Table 3 shows the asset allocation of the portfolio as at 31 March 2007:

Table 3: Asset Allocation

	Balanced Manager Benchmark %	Newton Profile %	UBS Profile %
UK Equities	39	41	40
Overseas Equities	31	35	31
Gilts	12	9	10
Overseas Bonds	0	3	5
Index Linked	6	5	1
Corporate Bonds	12	6	11
Property	0	0	0
Cash	0	1	2
Total	100	100	100

Source: WM Performance Review 2006/2007

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 4.

Table 4: Control Ranges Variations

	Balanced Managers' Asset Allocation Relative to their Fund Benchmark as at 31st March 2007		
	Newton Profile %	UBS Profile %	Control Ranges %
UK Equities	+2	+1	+/-10
Overseas Equities	+4	0	+/-10
Gilts	-3	-2	+/-10
Overseas Bonds	+3	+5	Up to 10
Index Linked	-1	-5	+/-10
Corporate Bonds	-6	-1	+/-10
Property	0	0	Up to 5
Cash	+1	+2	Up to 10

Source: WM Performance Review 2006/2007

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

Both managers have positioned their portfolio defensively against fears for the future direction of the market. They prefer to invest in sectors such as food, healthcare, telecommunication and basic materials.

The relative risk of that part of the Fund managed by UBS was 1.9% at the end of March, whilst the relative risk reported by Newton was 1.06%. Both are within the approved relative risk target of 3.5%.

The investments in the fund of hedge funds and private equity funds were made in the second half of the year so the comparative performance data covers a shorter period. In the case of private equity the investment is at an early stage where some losses are likely.

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

WM Company Performance Review 2006/2007

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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 2006 to March 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 Fund Performance

The total Fund value managed by UBS and Newton has risen from £372.8m at 30 September 2006 to £386.7m as at the end of March 2007. The total combined Fund showed a return of +5.3% compared to the benchmark return of +5.8% during the October to March period.

At the end of the period the Fund's hedge fund of funds investment, managed by Man Investments, was valued at £10.6m, whilst investment drawdowns totalling around £4.8m have been made to Partners Group (UK) Ltd, the Council's private equity fund of funds investment managers. A further commitment of £8.7m to Partners Group has yet to be drawn down.

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

3. Investment Profiles and Relative Risk Target

Details of the Managers' asset allocation as at 31 March 2007 is contained in the separate Committee Report covering Pension Fund Investment Performance 2006/07.

The relative risk of that part of the Fund managed by UBS was 1.9% at the end of March, whilst the relative risk reported by Newton was 1.06%. Both are within the approved relative risk target of 3.5%.

Table 1 below shows Asset Category Returns for the last six months.

Table 1 : Asset Category Returns

	Benchmark Return %	Newton Return %	UBS Return %	Total Fund Return %
UK Equities	+9.2	+9.1	+7.5	+8.3
Overseas Equities	+8.2	+7.7	+5.8	+6.8
Gilts	-1.0	-1.4	-0.7	-1.0
Overseas Bonds	n/a	-3.6	-1.5	-2.2
Index Linked	-0.3	-0.4	n/a	-0.1
Corporate Bonds	-0.1	-0.5	+0.4	+0.1
Property	n/a	n/a	n/a	n/a
Cash	n/a	n/a	n/a	n/a
Total	+6.0	+6.0	+4.7	+5.3

Source : WM Company, Newton, UBS

4. UBS Investment Report

During the last six months the value of assets managed by UBS rose from £197.9m to £204.2m and showed a return of +4.7% compared to their benchmark return of +6.0%.

For the year, UBS returned +4.4% against a benchmark return of +5.9%. Over the last three years they have underperformed their benchmark by 0.9%.

5. Newton Investment Report

During the last six months the value of assets managed by Newton rose from £174.9m to £182.5m and showed a return of +6.0% compared to their benchmark return of +6.0%.

For the year Newton returned +4.7% against a benchmark return of +5.9%. Over the last three years Newton have outperformed their benchmark by 0.4%.