PENSIONS COMMITTEE – 1 NOVEMBER 2006

PENSION FUND INVESTMENT PERFORMANCE 2005/2006

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.

REPORTED FOR INFORMATION

1. Annual Report 2005/2006

A summary of the fund's performance in 2005/2006 together with the pension fund's accounts can be found in the Pension Fund Annual Report 2005/2006 which has been circulated with the agenda and distributed to the fund's admitted bodies. A copy of the Statement of Investment Principles, which has been updated for the revised management arrangements and the decision to leave the LAPFF, has also been circulated with the agenda.

2. WM Report on Fund Performance 2005/2006

The WM Company has published a report on the Fund's performance for 2005/2006. 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.

The performance of the Fund for 2005/2006 was reported to the last meeting, but is reproduced below for easy reference. Table 1 below analyses the return over the different market sectors and compares it to the fund benchmark.

Table 1

	Benchmark Return %	**Newton Return %**	**UBS Return %**	**Total Fund Return %**
UK Equities	+28.0	+26.3	+23.3	+24.7
Overseas Equities	+36.3	+37.9	+33.7	+35.9
Gilts	+7.4	+7.4	+7.2	+7.3
Overseas Bonds	n/a	n/a	+8.7	+6.5
Index Linked	+8.4	+7.9	+8.5	+7.5
Corporate Bonds	+7.9	+7.8	+8.0	+7.9
Property	n/a	n/a	n/a	n/a
Cash	n/a	n/a	+4.5	+4.8
Total	+22.3	+23.1	+20.0	+21.4

**n/a : Returns are not applicable to these sectors as the benchmark does not specify any holding.*
Source: WM Performance Review 2005/2006

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.

In an excellent year for absolute returns, Bexley's Fund showed a return of 21.4% against the fund benchmark of 22.3%. During the year UBS underperformed the benchmark with a return of 20.0% whilst Newton outperformed with a return of 23.1%.

3. Long Term Performance

Over the last three years the fund has outperformed the fund benchmark by 1.3% per annum. Table 2 below gives details on the fund managers' performance and the total combined fund against the fund benchmark.

Table 2

	UBS	Newton	Combined Fund	Benchmark
1 year	20.0	23.1	21.4	22.3
3 years	18.9	19.0	18.9	17.6
10 years	8.3	n/a	7.8	7.6

Source: WM Performance Review 2005/2006

4. Investment Profiles and Relative Risk Target

Table 3 shows the asset allocation of the portfolio as at 31 March 2006:

Table 3: Asset Allocation

	Fund Benchmark %	**Newton Profile %**	**UBS Profile %**	**Total Fund Profile %**
UK Equities	39	37	40	39
Overseas Equities	31	38	30	34
Gilts	12	11	9	10
Overseas Bonds	0	3	4	3
Index Linked	6	4	1	2
Corporate Bonds	12	6	11	9
Property	0	0	0	0
Cash	0	1	5	3
Total	100	100	100	100

Source: WM Performance Review 2005/2006

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

	Asset Allocation Relative to the Fund Benchmark as at 31st March 2006			
	Newton Profile %	**UBS Profile %**	**Total Fund Profile %**	**Control Ranges %**
UK Equities	-2	+1	0	+/-10
Overseas Equities	+7	-1	+3	+/-10
Gilts	-1	-3	-2	+/-10
Overseas Bonds	+3	+4	+3	Up to 10
Index Linked	-2	-5	-4	+/-10
Corporate Bonds	-6	-1	-3	+/-10
Property	0	0	0	Up to 5
Cash	+1	+5	+3	Up to 10

Source: WM Performance Review 2005/2006

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 1.5% at the end of March, whilst the relative risk reported by Newton was 0.95%. Both are within the approved relative risk target of 3.5%.

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

WM Company Performance Review 2005/2006

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