

By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee –18 June 2010

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

Summary: To provide a summary of the Fund asset allocation and performance.

FOR DECISION

INTRODUCTION

1. The Fund Position Statement for the Quarter and Year ended 31 March 2010 is attached in Appendix 1. More comparative information on 2009-10 will be received from WM but this report gives a summary of the position.

PERFORMANCE ANALYSIS

2. **Overall**

- (1) The Fund was slightly ahead of benchmark for the year with a return of +36.7% against the benchmark of +36.4%. This placed the Fund in the 42nd percentile of local authority funds. The absolute return for the year was the highest we have records for.
- (2) The 3 year return is 58th percentile and the 5 year 47th percentile.
- (3) There has been massive variation in manager returns, with some very strong and very poor performance.

3. **UK Equities**

- (1) Schroder returned 52.7% for the year against a benchmark of 50.7%, an outperformance of +2.0%. Over 3 years Schrodors are +2.3% per annum ahead of benchmark compared with a target of +1.5%.
- (2) Unfortunately after strong outperformance in 2008-09 Invesco performed poorly in 2009-10 with the fund returning 33.3%, -19.0% behind benchmark. Invesco have positioned the portfolio very defensively, for example they own no banks, and did not fully participate in the recovery in share prices in 2009. A letter received

from them has been circulated to Members and is attached in Appendix 2.

- (3) Since early 2009 we have also had a passive equity mandate with State Street which performed slightly ahead of the index returning +52.65%.

4. **Global Equities**

- (1) Ballie Gifford are our largest manager of overseas equities, in the year they returned +53.2% against a benchmark of +47.4%, an outperformance of 5.8%. Over 3 years Baillie Gifford are +3.3% ahead of benchmark compared with a target of +1.5%.
- (2) Alliance Bernstein after a disastrous 2008-09 were in line with their benchmark in 2009-10 with a return of +43.6% against the benchmark of +44%. They still have a lot of ground to make up.
- (3) GMO is a quantitative manager with stock selection and portfolio construction undertaken by computer models. 2009-10 was a disappointing year with the return -5.1% below the benchmark. Their 3 year numbers are -1.1% below benchmark. GMO have added no value since their appointment. A letter from GMO is attached in Appendix 3.
- (4) Schrodgers also have a quantitative global equities mandate with the money invested in the Global Active Value fund. This fund had an exceptionally good 2009-10 with a return of +60.5% against a benchmark of +44% with outperformance of +16.5%. The 3 year numbers are slightly ahead of benchmark by 0.3% per annum but the performance since inception is +2.4% per annum.
- (5) Late in 2009 a small investment was made in a passive State Street global equities fund which has performed in line with the benchmark.

5. **Fixed Income**

- (1) Goldman Sachs had an exceptional 2009-10 with a return of 19.3% against a benchmark of 11%, outperformance of +8.3%.
- (2) Schrodgers also had an excellent year with a return of +13.5% against a benchmark of +8.5%, outperformance of +5.0%.

6. **Property**

- (1) The Property portfolio is measured against a customised Investment Property Databank (IPD) index for large pension funds. In 2009 calendar year the IPD universe returned +3.0% due

predominantly to a strong recovery in Quarter 4, and the Kent portfolio increased by +14%, outperforming the index by 11%.

- (2) This excellent outcome was due to strong rental income assisted by a very low void rate (1.7% compared with an IPD average of 10.8%) and the quality of properties in the portfolio and the generally good covenant of the occupiers.

ASSET ALLOCATION

7. As at 31 March the Fund asset allocation had deviated significantly from the target as shown below:

	Benchmark %	Actual %	Variance %
UK Equities	34.5	34.4	-
Global Equities	34.5	39	+4.5
Fixed Income	15	4	-1
Property	11	8	-3
Other	5	5	-

8. Under our Statement of Investment principles the Committee needs to consider at each meeting whether to re-balance the Fund. The above benchmark weighting to Equities is a consequence of the steep rise in that asset class in 2009-10, in April and May the FTSE All Share was down 11.2% and so the overweighting to Equities will reduce. Direct and Indirect Property investments are reducing that gap. Officers recommend no rebalancing.

PERFORMANCE ASSESSMENT

9. The CIPFA Investment Decision Making and Disclosure Guide suggests that the Committee should undertake a self-assessment of its decision making. The following is an attempt to do this looking back at the year.
10. The following are positives for the Fund:
- Strong performance by some of the largest mandates – Schroders UK Equities and Baillie Gifford Overseas Equities, and the Schroders GAV.
 - The introduction of passive management of equities.
 - Continued outstanding performance by DTZ.
 - Very strong performance from the two Fixed Income managers who with Hymans Robertson’s advice were retained when the mandates were amended.
 - Moving back into markets and running down the Cash balance.

11. The following are negatives for the Fund:

- Invesco's underperformance reduced the overall Fund return by around 1%. The reasons they have underperformed are clear and they are doing what we expect them to but the cost in performance is painful.
- Alliance Bernstein and GMO continue to disappoint. Clearly returns of the scale achieved in absolute terms were outstanding and it may be more appropriate to judge in more stable markets.
- The Fund remains hugely dependant upon equity markets. The Aletrnative Assets allocation will be built up slowly.
- Much of the Cash put back into the market went to Invesco who have under-performed.

RECOMMENDATION

12. Members are asked to:

- (1) Note the performance for the quarter and year.
- (2) Agree not to rebalance asset classes.
- (3) Note the self-assessment.

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