

By: Director of Finance  
To: Superannuation Fund Committee - 12 September 2008  
Subject: **FUND POSITION STATEMENT**  
Classification: Unrestricted

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

## **FOR INFORMATION**

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### **INTRODUCTION**

1. Attached is the Fund Position Statement for the April to June 2008 quarter.
2. Given the continued performance problems a more detailed commentary is provided below.

### **PERFORMANCE ANALYSIS**

3. The Fund once again fell in value in the quarter and slightly underperformed the benchmark. The two largest managers of UK Equities, Schroders and Invesco, outperformed as did Baillie Gifford the largest manager of Overseas Equities.
4. Over the last year the Fund has returned -10.7% against a benchmark of -8.4%.
5. In the last year the main positives have been Baillie Gifford on Overseas Equities performing nearly 5% ahead of benchmark and Schroders UK Equities.
6. The main detractors from performance have been SG (considered elsewhere in the Committee papers), the 3 Global Equity managers appointed in March 2006 and underperformance on Fixed Income. These latter two issues will be considered in more detail.
7. At the time of the March 2006 selection process Value stocks had had a long period of outperformance and the two managers appointed had a strong Value emphasis - the Schroders Global Active Value is a highly Value focussed quantitative product and GMO's quantitative product is based 70% on Value and 30% on Momentum. The last 18 months has been very difficult for Value investors and for quantitative products. From 1 January 2007 to 31 July 2008 the MSCI Value Index fell -9%, MSCI Growth rose 1.4% and overall the MSCI index fell by -3.8% (source Alliance Bernstein). The Alliance Bernstein Blend product has a 50:50 weighting between Value and Growth, in the 12 months to 30 June 2008 Alliance Bernstein underperformed by -5.4% because the Growth sleeve of the product did not deliver the performance to outweigh the fall in Value.

8. The Fund needs a strong recovery in Value for these 3 Global Equity managers to perform well.
9. Looking at the last year the two Fixed Income mandates the benchmark return was +2.8% and Goldman Sachs returned +1.9% and Schroders +0.4% - so both underperformed. The current allocation to Fixed Income is 14.7% compared to 18% for the average Local Authority fund. The rationale for maintaining a significant allocation to Fixed Income is the diversification it provides from Equities. If we look at the long term 3 year benchmark return for the Goldman Sachs mandate it is +1.3% per annum (they delivered +0.9%) and it is questionable in a low interest rate environment just how much value Fixed Income can add to the Fund. The Leicestershire Fund has recently withdrawn from Fixed Income completely. Cash plus products may offer appropriate diversification but with higher return.
10. The Fund's investment performance needs to be looked at over longer periods but the triennial valuation is a good period for looking at performance. As we approach the half way point to the March 2010 valuation the Fund is well behind the +6.1% pa return assumed by the fund actuary (2007-08 return -5.8%) and is also performing poorly relative to other local authority funds.

### **RECOMMENDATION**

11. Members are asked to note this report.

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