

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 31 August 2012

Subject: **COMPARATIVE INVESTMENT RETURNS**

Classification: Unrestricted

Summary: To report on comparative investment returns.

FOR INFORMATION

INTRODUCTION

1. At the last meeting the additional information in the Fund Position Statement led to a request for more information on comparative investment returns of local authority funds.

WM UK LOCAL AUTHORITY ANNUAL REVIEW 2011/12

2. Members of the Committee have been provided with copies of the latest edition of this annual report prepared by the WM Company.
3. The main issues from the report are:
 - (1) Average equity holdings fell from 64% to 62% - so even our reduced benchmark weight of 64% is slightly above average.
 - (2) The average bond allocation rose from 17% to 18% - the Fund is at 14%.
 - (3) Equities returned 3% per annum on average over the last 5 years – a hugely disappointing return.
 - (4) The Fund has 3 of the top 10 managers of local authority funds by value – Baillie Gifford 4th with 5%, Schroders 5th with 4% and State Street 7th with 3%.
 - (5) On average 24% of funds by value are passively managed compared with 13% for the Fund.
 - (6) Almost 75% of funds underperformed their benchmark in 2011/12.
 - (7) The range of returns doubled over the past year with 90% of funds within a range of 8%.

- (8) Alternatives generally appear not to have performed well – private equity was at the upper end of results and hedge funds, commodities and active currency fairly “substantially worse”. Again the Fund’s choices in this area were good.
 - (9) Most funds still have a positive cashflow although many funds are now having to use investment income.
4. The overriding theme which will be reflected in the rest of this report is that funds who were overweight in equities and underweight in Fixed Income performed less well in 2011/12. For the Fund to have outperformed the Local Authority Average given our asset allocation says much for the returns generated by Invesco and Baillie Gifford – and the avoidance of any significant underperformance by a major manager.

LOCAL AUTHORITY INVESTMENT PERFORMANCE

5. In Appendix 1 the Top 10 and Bottom 10 Local Authority funds in 2011/12 are shown. I would highlight the following:
- (1) All the funds in the Top 10 except Staffordshire had an above average allocation to Fixed Income.
 - (2) None of the funds in the Top 10 in 2011/12 were in the Top 10 in 2010/11 – a better year for equity returns.
 - (3) In 2010/11 both Hammersmith & Fulham and Northumberland were in the Bottom 10. Of the Top 10 in 2011/12 only 2, Staffordshire and South Yorkshire, outperformed the Fund in 2010/11.
 - (4) The Bottom 10 Funds in 2011/12 all had high allocations to equities and manager underperformance. Accurate and up to date manager rosters are not publicly available. Of the Bottom 10 only Barking and Shetlands were also in the Bottom 10 in 2010/11.
6. Over the 2 year period the most comparative fund to have performed well is Staffordshire and in Appendix 2 their asset allocation and manager roster as at 31 March 2011 is shown. The main differences from the Fund are:
- (1) A far higher allocation to Overseas Equities than UK Equities – 63% Overseas.
 - (2) More active managers but generally with smaller mandates; at 31 March 2011 the Fund was valued at £2,617m and Standard Life had 10% of the fund (£262m) and 3 other active equity managers 7% each (£183m).
 - (3) The State Street passive equity exposure was all Global and was higher than the Kent Fund at 31% compared with 13%.

7. Staffordshire are also advised by Hymans Robertson.
8. Staffordshire has a Pensions Committee of 15 members and a Pensions Panel of 5 (all county members) with the Panel focussing exclusively on investment manager issues.

RECOMMENDATION

9. Members are asked to note the report.

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Local Authority Investment Performance 2011/12

APPENDIX 1

Fund	Size £m	Total	UK	Overseas	Global	Total	Fixed Income	Alternatives	Property
		Return %	Equities %	Equities %	Equities %	Equities %	Income %	%	%
Average	-	2.6	25.4	33.4	4.4	63.2	17.2	7.7	7.3
Kent	2,885	2.7	35.8	22.9	11.0	69.7	11.7	3.7	9.5
Top 10									
Hammersmith	557	8.2	26.8	27.5		54.3	24.2	19.9	0.0
Staffs CC	2,395	7.8	27.1	26.5	20.3	73.9	12.9	6.8	7.3
Dorset CC	1,412	6.6	27.0	26.2		53.2	19.7	8.3	7.0
Powys CC	324	6.1	2.5	32.9	14.1	49.5	27.4	11.7	7.2
Redbridge	397	5.4	25.3	28.7		54.0	35.3	1.1	6.0
Wandsworth	769	5.4	34.6	20.4	13.3	68.3	23.9	0.0	1.2
Cumbria CC	1,278	5.3	25.9	25.9		51.8	32.2	7.8	6.4
Northumberland CC	719	5.2	27.6	28.4	11.6	67.6	26.9	0.0	5.5
South Yorkshire	4,076	5.2	21.9	35.4		57.3	22.2	7.6	9.7
Environment Active	1,595	5.1	17.0	41.8		58.8	27.9	7.6	3.2

Fund	Size	Total	UK	Overseas	Global	Total	Fixed	Alternatives	Property
		Return	Equities	Equities	Equities	Equities	Income		
	£m	%	%	%	%	%	%	%	%

Bottom 10

Worcs CC	1,366	-1.0	39.5	51.7		91.2	6.8	0.0	0.0
Brent	454	-0.2	21.1	30.7		51.8	16.2	24.3	7.1
Cornwall CC	1,041	0.2	24.7	38.4		63.1	16.2	10.4	7.1
Cambs CC	1,486	0.5	33.8	20.9	17.2	71.9	13.8	5.7	8.6
Gwynedd CC	929	0.5	19.4	33.2	10.8	63.4	14.0	5.5	8.9
Teeside	2,372	0.5	38.1	39.7		77.8	9.5	2.9	5.4
Barking	566	0.5	26.5	34.0		60.5	26.7	1.4	8.8
Swansea	1,016	0.6	33.0	34.8		67.8	6.6	4.4	3.9
Kingston	385	0.7	2.9	32.9	43.9	79.7	14.8	0.0	4.6
Shetlands	227	0.9	39.4	40.5		79.9	8.4	0.0	7.5

Note:

Fund values at 31 March 2010

Appendix 2

Staffordshire Pension Fund

Asset Allocation	%
UK Equities	26
Overseas Equities	45
UK Bonds	13
Property	7
Other	5
Cash	4
	100
Managers Equities	
State Street	Global passive
Aberdeen	Global active
Sarasin & Partners	Global active
JP Morgan	Global active
Standard Life	UK active
Longview	Global active
Russell	Emerging Markets active
Pictet	Emerging Markets active
Fixed Income	
Insight	UK Government and Index Linked Bonds
Legal & General	UK Index Linked
Property	
Colliers	Property
Alternatives	
Financial Risk Management	Hedge Funds
Goldman Sachs	Hedge Funds
Various	Private Equity