



Report to:	Pension Committee	Date:	22 June 2015
Report title:	Investment Performance of the Fund Managers to March 2015		
Report from:	Gerald Almeroth, Strategic Director – Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Cllr Sunita Gordon		
Author(s)/Contact Number(s):	Sue Hogg, Interim Head of Financial Strategy and Planning (020 8770 5260) Lisa Doswell, Treasury and Investments Manager (020 8770 5354)		
Corporate Plan Priorities:	A Smart Council		
Open/Exempt:	Open		
Signed:		Date:	11 June 2015

1. Summary

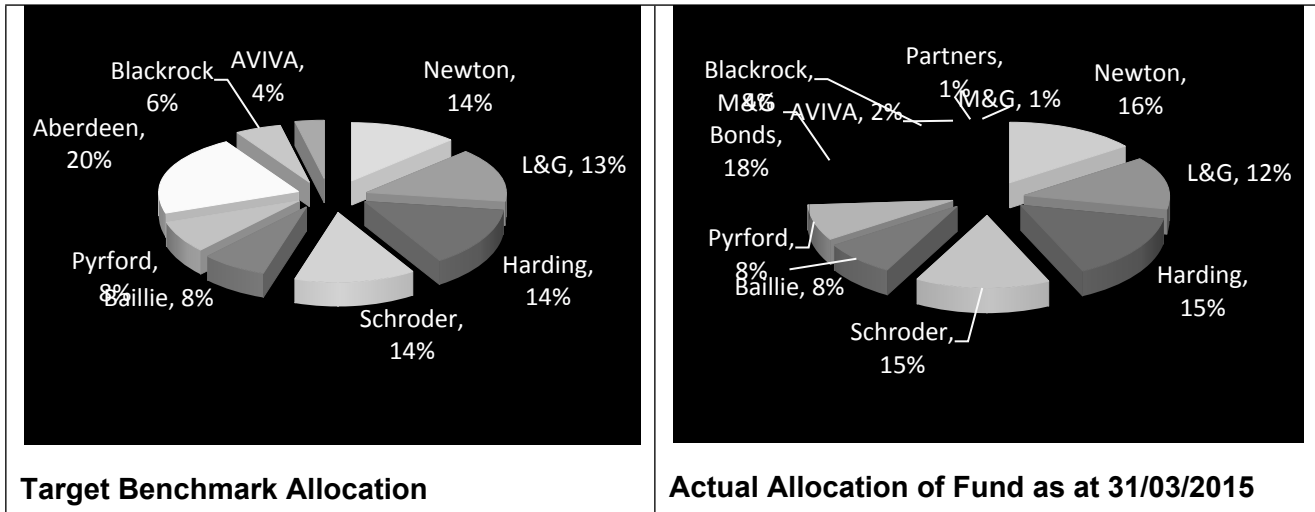
- 1.1. This report shows the performance of the Pension Fund Investment Managers for the quarter ending 31 March 2015, performance in the last twelve months, annualised rolling three year performance against target benchmark and performance since inception.

2. Recommendation

- 2.1 The Committee notes the performance of the Pension Fund Investment Managers and also notes the proposed manager fee reductions.

3. Background

- 3.1 Legal & General (L&G), Newton Investment Management (Newton), Harding Loevner, Schroder, Baillie Gifford, Pyrford, M&G, BlackRock and Partner's Group were employed as the Council's investment managers for the year ending 31 March 2015. The Council was also invested in two separate funds; M&G UK Companies Financing Fund and Aviva Investors UK Real Estate Fund of Funds Plan.
- 3.2 Under the Council's current investment strategy a strategic target benchmark allocation of 42% of the total fund value is to be invested in global equities managed in separate, equal sized portfolios by Newton, Harding Loevner and Schroder's. 13% of the fund is to be invested in UK equities by L&G and 15% of the fund is to be split equally in absolute return pooled vehicles managed by Baillie Gifford and Pyrford. 20% of the fund is targeted in bonds by M&G, 10% in Property, split between 6% with BlackRock and 4% with AVIVA. This is shown in the chart on the left, against the current actual allocation of the fund on the right. There is a long term strategic target to bonds of 15% and 5% to infrastructure, but this will take some time to implement.



3.3 Performance targets for all fund managers are set by the Council to obtain good investment performance returns, whilst also balancing risk.

4 Performance of the Managers

- 4.1 The tables set out within the report show the managers’ performance for the quarter, over the last twelve months and since inception (where possible) and a comparison against the relevant indices in the Council’s strategic asset allocation benchmark. All figures are shown net of fees. Appendix C (exempt information) shows the basis on which fees are calculated by each fund manager and the fees which have been incurred for the current and previous quarter.
- 4.2 At the previous Pension Committee meeting on 16 March, it was agreed that officers would look into the possibility of renegotiating the fee structure with Harding Loevner. Following this, Harding Loevner are now in the process of setting up a new share class, which The Fund will move into and this will result in a reduction to the current fee of 10 bps. Pyrford has also amended their fee structure, by increasing their fee rebate, resulting in a reduction to the current fee of 5bps.

Movement in Fund Value from 31 December 2014 to 31 March 2015

4.3 The table below shows the value of holdings with each of the fund managers as at the end of the latest quarter and the end of the previous quarter.

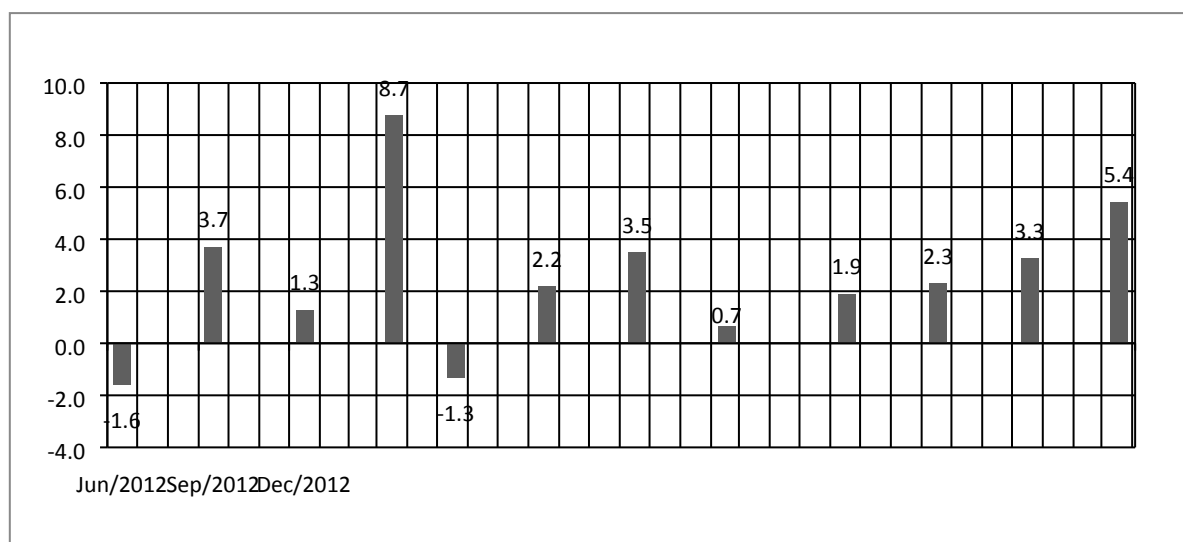
Fund Manager	Value at end 31/12/14 £'000	Value at end 31/03/15 £'000	Value change £'000	% Change
Total Equities	266,649	285,971	19,322	7.2
Legal & General	57,916	60,645	2,729	4.7
Newton	70,880	77,220	6,340	8.9
Harding Loevner	68,112	73,673	5,561	8.2
Schroder	69,741	74,433	4,692	6.7
Bonds	79,087	81,005	1,918	2.4
M&G bonds	79,087	81,005	1,918	2.4

Pooled Multi Asset	76,905	79,286	2,381	3.1
Baillie Gifford	39,274	40,606	1,332	3.4
Pyrford	37,631	38,680	1,049	2.8
Property	31,811	32,330	519	1.6
Blackrock	20,454	20,744	290	1.4
AVIVA	11,357	11,586	229	2.0
Alternatives	10,112	11,125	1,013	10.0
Partner's Group*	5,399	6,357	958	17.7
M&G – Co's Financing Fund	4,713	4,768	55	1.2
Cash **	14,852	16,730	1,878	12.6
Total Assets	479,416	506,447	27,031	5.6

*The table above shows the change in value of the holdings over the last quarter. A fifteenth capital call payment was made to Partner's Group on 19 January for EUR 1,220k. This transaction represented approximately £938k.

** The level of cash has increased by £1.9m as Pension Fund revenue income exceeded expenditure by approximately this amount during the quarter.

Fund Value Movement %



The above table excludes cash.

TOTAL FUND PERFORMANCE

Total fund performance pre and post strategy implementation

Benchmark 27 months to 31/10/12	Fund 27 months to 31/10/12	Variance	Benchmark 27 months to 31/03/15	Fund 27 months to 31/03/15	Variance
%	%	%	%	%	%
8.3	7.9	-0.4	11.7	12.1	0.4



4.4 Prior to the new strategy implementation the combined fund underperformed the benchmark by 0.4% over the previous 27 months (benchmark 8.3%, actual 7.9%). Looking at performance 27 months after the new strategy was implemented the combined fund outperformed the benchmark by 0.4% (benchmark 11.7%, actual 12.1%).

4.5 Total fund performance for the latest quarter ended 31 March 2015

TOTAL FUND	Benchmark Allocation	Fund Allocation	Benchmark Return	Fund Return	Variance
	%	%	%	%	%
Equities	55	58	6.8	7.2	0.4
Bonds	20	18	1.8	2.4	0.6
Pooled Multi Asset	15	16	0.9	3.0	2.1
Property	10	6	2.8	2.6	-0.2
Alternatives	0	2	n/a	n/a	n/a
TOTAL ASSETS	100.0	100.0	4.5	5.2	0.7

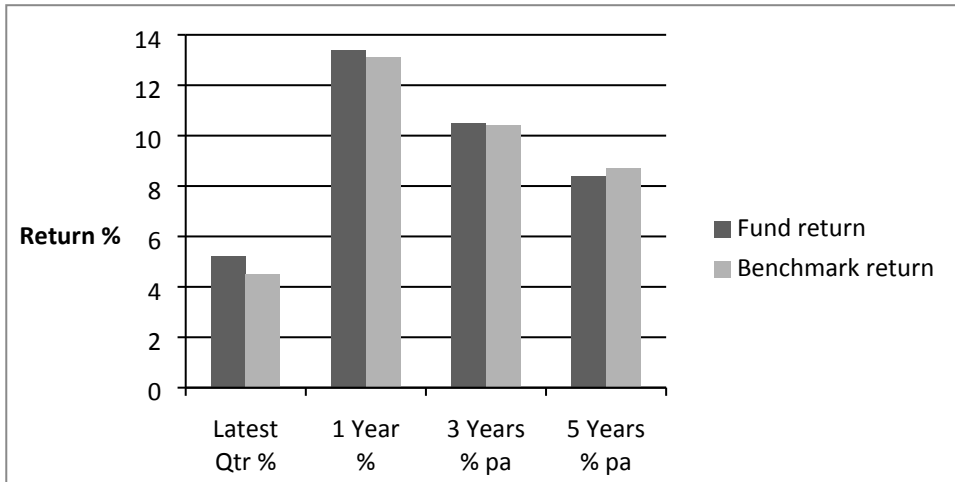
4.6 At total fund level the combined fund performance outperformed the benchmark by 0.7% over the period achieving a return of 5.2% compared to the benchmark return of 4.5%. Performance of individual asset classes is detailed in paragraph 4.8 onwards.

Total fund performance – longer term

TOTAL FUND	1 Year	3 Years	5 Years
	%	% pa	% pa
Fund return	13.4	10.5	8.4
Benchmark return	13.1	10.4	8.7
Variance %	0.3	0.1	-0.3

4.7 At total fund level, as at 31/03/15 the combined fund outperformed the benchmark by 0.3% over the past year and outperformed by 0.1% per annum over the past three years and underperformed by 0.3% per annum over the past five years.

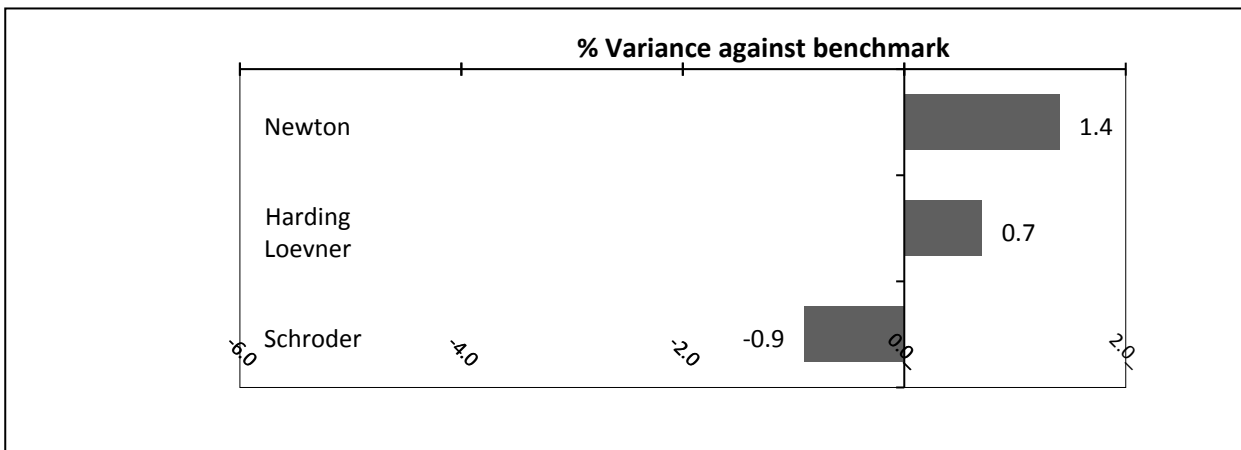
4.8 The bar chart below summarises the overall performance of the fund over the latest, one year, three year and five year positions.



EQUITY PERFORMANCE

Equity performance for the latest quarter ended 31 March 2015

Manager	Benchmark Allocation	Fund Allocation	Benchmark Return	Fund Return	Variance
	%	%	%	%	%
L&G	13	12	4.7	4.7	0.0
Newton	14	16	7.5	8.9	1.4
Harding Loevner	14	15	7.5	8.2	0.7
Schroders	14	15	7.5	6.6	-0.9
TOTAL EQUITIES	55	58	6.8	7.2	0.4



4.9 L&G matched the benchmark (benchmark 4.7%, actual 4.7%). Newton outperformed the benchmark by 1.4% (benchmark 7.5%, actual 8.9%). Harding Loevner outperformed the benchmark by 0.7% (benchmark 7.5%, actual 8.2%) and Schroder’s underperformed the benchmark by 0.9% (benchmark 7.5%, actual 6.6%).

4.10 Global equity markets rose over the quarter helped as the European Central Bank provided quantitative easing in Europe. The US failed to outpace other major developed markets such as Europe and Japan, which ended the quarter as the best performing region. Sector performance was significantly varied during the quarter; healthcare led, utilities lagged, energy stocks also struggled, while real estate outperformed banks. Newton’s outperformance was driven by its



exposure to consumer stocks, as well as stocks in the financial sector. Harding Loevner benefitted most from their underweight position in energy, industrial and utilities stocks as well as good stock selection within the Financials and Information Technology. Whilst Schroders benefitted from their position in banks and by being underweight in US utilities and poorly performing high cost energy companies, this was offset by the fund's allocation to value opportunities (large, quality, low cost companies) within this sector and more widely by their continued focus away from the growth areas of the market.

4.11 Equity performance – longer term

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception	Fund Return Since Inception	Variance
	%	%	%	%	%	%
L&G	6.6	6.6	0.0	8.2	8.2	0.0
Newton	18.4	21.0	2.6	17.0	19.3	2.3
Harding Loevner	18.4	21.8	3.4	17.0	16.8	-0.2
Schroders	18.4	14.0	-4.4	17.0	17.1	0.1

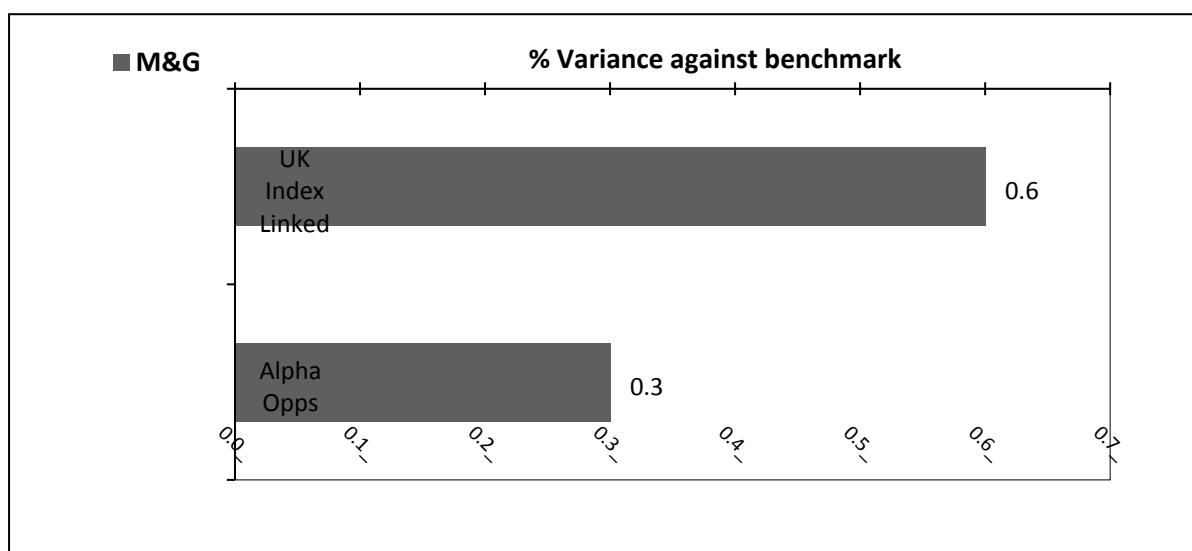
4.12 During the twelve months ended 31 March 2015, L&G matched the benchmark (benchmark 6.6%, actual 6.6%). Newton outperformed the benchmark by 2.6% (benchmark 18.4%, actual 21.0%), Harding Loevner outperformed the benchmark by 3.4% (benchmark 18.4%, actual 21.8%) and Schroders underperformed the benchmark by 4.4% (benchmark 18.4%, actual 14.0%).

4.13 Since inception L&G matched the benchmark (benchmark 8.2%, actual 8.2%), Newton outperformed the benchmark by 2.3% (benchmark 17.0%, actual 19.3%), Harding Loevner underperformed the benchmark by 0.2% (benchmark 17.0%, actual 16.8%) and Schroder outperformed the benchmark by 0.1% (benchmark 17.0%, actual 17.1%).

4.14 **BOND PERFORMANCE**

Bond performance for the latest quarter ended 31 March 2015 (M&G)

	Benchmark Allocation	Fund Allocation	Benchmark Return	Fund Return	Variance
	%	%	%	%	%
UK Index Linked	-	-	3.3	3.9	0.6
Alpha Opportunities Fund	-	-	0.9	1.2	0.3
TOTAL M&G	20	18	1.8	2.4	0.6

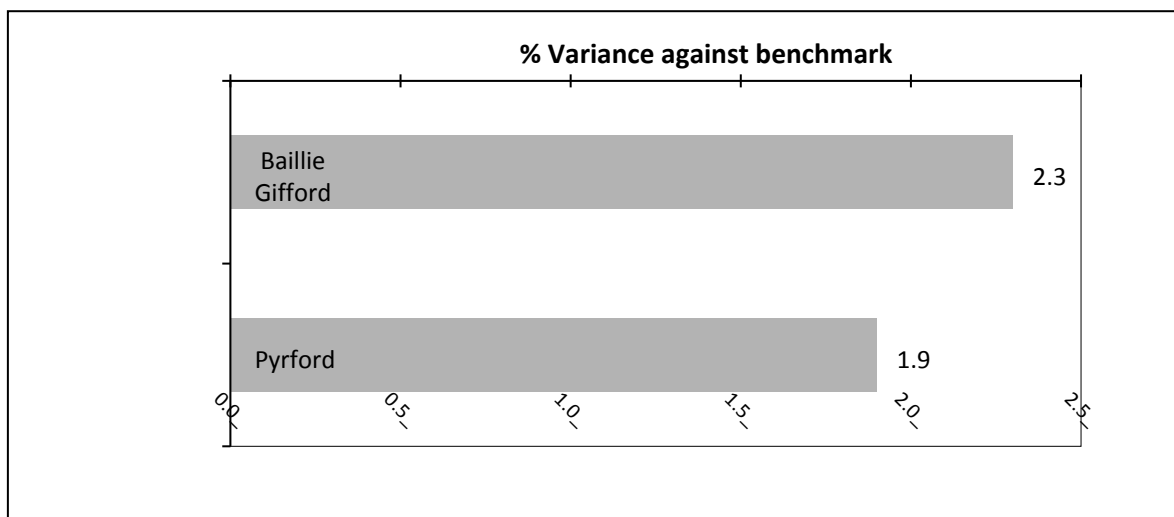


- 4.15 M&G bonds outperformed the benchmark by 0.6% (benchmark 1.8%, actual 2.4%). The UK Index Linked Fund outperformed the benchmark by 0.6% (benchmark 3.3%, actual 3.9%). The Alpha Opportunities Fund outperformed the benchmark by 0.3% (benchmark 0.9%, actual 1.2%).
- 4.16 Performance was strong across the bond markets during the quarter, supported by the expectation that interest rates in the UK will not increase until 2016 and the move by the European Central Bank to start quantitative easing. The UK Index Linked Fund benefitted from its overweight position in bonds with maturities of 15 and 55 years and underweight position in 30 year bonds. The key driver of corporate bond returns was the on-going fall of government yields, albeit credit spreads also narrowed in all of the major markets. Performance in the Alpha Opps Fund was driven by the strong performance of the fund's financial and industrial holdings, particularly long-dated dollar positions, in February. The fund's allocation to leveraged loans also contributed positively to returns.

POOLED MULTI-ASSET PERFORMANCE

Pooled Multi-Asset Performance for the latest quarter ended 31 March 2015

Manager	Benchmark Allocation	Fund Allocation	Benchmark Return	Fund Return	Variance
	%	%	%	%	%
Baillie Gifford	7.5	8.0	0.9	3.2	2.3
Pyrford	7.5	8.0	0.9	2.8	1.9
TOTAL POOLED MULTI-ASSET	15.0	16.0	0.9	3.0	2.1



- 4.17 Baillie Gifford outperformed the benchmark by 2.3% (benchmark 0.9%, actual 3.2%) and Pyrford outperformed the benchmark by 1.9% (benchmark 0.9%, actual 2.8%).
- 4.18 Over the quarter the largest contributors to performance for Baillie Gifford were listed equities, active currency, high yield credit and absolute return. Most other asset classes were broadly flat over the quarter. Pyrford's outperformance is attributed to its holdings in equities, particularly overseas holdings in Europe, Hong Kong and Japan. They also benefitted from their holdings in overseas bonds, gaining from US Dollar strength over the quarter.
- 4.19 Pooled Multi-Asset Performance – longer term

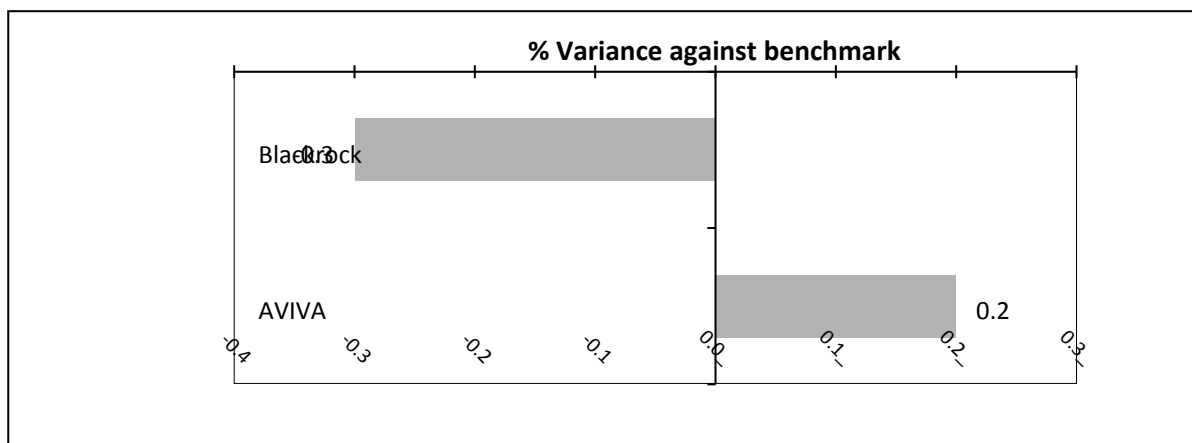
Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception	Fund Return Since Inception	Variance
	%	%	%	%	%	%
Baillie Gifford	3.6	8.0	4.4	3.6	6.7	3.1
Pyrford	3.6	6.9	3.3	3.6	4.3	0.7

- 4.20 During the twelve months ended 31 March 2015 Baillie Gifford has outperformed the benchmark by 4.4% (benchmark 3.6%, actual 8.0%) and Pyrford has outperformed the benchmark by 3.3% (benchmark 3.6%, actual 6.9%).
- 4.21 Since inception Baillie Gifford has outperformed the benchmark by 3.1% (benchmark 3.6%, actual 6.7%) and Pyrford has outperformed the benchmark by 0.7% (benchmark 3.6%, actual 4.3%).

PROPERTY PERFORMANCE

Property Performance for the latest quarter ended 31 March 2015

Manager	Benchmark Allocation	Fund Allocation	Benchmark Return	Fund Return Income	Fund Return Capital	Total Fund Return	Variance
	%	%	%	%	%	%	%
BlackRock	6	4	2.8	0.8	1.7	2.5	-0.3
AVIVA	4	2	2.8	1.3	1.7	3.0	0.2



4.22 BlackRock underperformed the benchmark by 0.3% (benchmark 2.8%, actual 2.5%) and AVIVA underperformed the benchmark by 0.2% (benchmark 2.8%, actual 3.0%).

4.23 The performance of the UK commercial property market remained strong during the quarter. The market is benefitting from increasing occupational demand which has led to the re-emergence of rental growth, which is no longer limited to Central London. The office and industrial sectors continue to deliver the strongest returns. The retail sector remains subdued. BlackRock's underperformance continues to be attributed to the two largest investments within the fund, namely the General Practice Group doctors surgeries and Premier Marina, as they have trailed the capital appreciation experienced by the rest of the commercial market. AVIVA's performance was underpinned by a very strong return from its second largest holding, which is in a student accommodation fund.

4.24 Property Performance – longer term

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception	Fund Return Since Inception	Variance
	%	%	%	%	%	%
RREEF/Blackrock	16.6	14.7	-1.9	3.5	-0.3	-3.8
AVIVA	16.6	16.6	0.0	8.5	8.8	0.3

4.25 During the twelve months ending 31 March 2015, Blackrock underperformed the benchmark by 1.9% (benchmark 16.6%, actual 14.7%) and AVIVA matched the benchmark (benchmark 16.6%, actual 16.6%).

4.26 Since inception RREEF/Blackrock underperformed the benchmark by 3.8% (benchmark 3.5%, actual -0.3%) and AVIVA outperformed the benchmark by 0.3% (benchmark 8.5%, actual 8.8%).

4.27 **ALTERNATIVES PERFORMANCE**

Alternatives Performance for the latest quarter ended 31 March 2015

Manager	Benchmark Allocation	Fund Allocation	Fund Return
	%	%	%
Partner's Group – Infrastructure	5	1	0.1
M&G – UK companies financing fund	0	1	1.2



4.28 Partner’s Group and M&G are not measured as part of the fund’s overall strategic benchmark. Due to the way investment is made with Partner’s Group, it is not meaningful to make comparisons with their performance target at this stage. M&G has returned 1.2% over the latest quarter.

4.29 Alternatives Performance – longer term

Manager	Fund Return 1 Year	Fund Return Since Inception
	%	%
Partner’s Group	4.5	2.4
M&G	4.9	4.9

4.30 During the twelve months ending 31 March 2015, M&G has returned 4.9% and since inception they have returned 4.9%.

5 ANNUALISED ROLLING 3 YEARS TO 31 MARCH 2015

5.1 The annual performance targets for equities, bonds and pooled multi-asset fund managers are set over a rolling three year period. However, due to the changes which have been made to the fund as a whole, it will not be possible to assess the performance of M&G, Newton, Harding Loevner, Schroder’s, Baillie Gifford or Pymford until they have been established within the fund for three years. With the exception of M&G (appointed in May 2014) this assessment will start for the quarter ended 31/03/16.

6 Options Considered

6.1 Not applicable

7 Impacts and Implications

Financial

7.1 The financial implications are addressed within the report.

Legal

7.2 There are no legal issues arising from this report.

8 Appendices and Background Documents

Appendix Letter	Title
A	Current Investment Strategy Benchmarks and Targets
B	Manager Fees (Exempt)

Background Documents
WM Investment Performance Reports



Audit Trail		
Version	Final	Date: 11 June 2015
Consultation with other officers		
Officer	Comments Sought	Comments checked by
Finance	Yes	Sue Hogg
Legal	N/A	N/A



APPENDIX A

CURRENT INVESTMENT STRATEGY BENCHMARKS AND TARGETS

Each manager has been set a specific benchmark as well as a performance target against which they will be measured. This is shown in the table below. The Fund's strategic asset allocation benchmark is shown in the performance tables.

Manager	Mandate	Tactical Benchmark	Performance Target
Newton	Global equity pooled fund - active	MSCI All Countries World NDR Index	2% above benchmark over rolling 3 year period (gross of fees)
Harding Loevner	Global equity pooled fund – active	MSCI All Countries World NDR Index	3% above benchmark over rolling 3 year period (gross of fees)
Schroder	Global equity pooled fund - active	MSCI All Countries World NDR Index	3% above benchmark over rolling 3 year period (gross of fees)
Legal & General	UK Global equities pooled fund – passive	UK - FT All Share Index	To track the benchmark
Baillie Gifford	Pooled multi asset	3 month LIBOR + 3%	3% above benchmark over rolling 3 year period (gross of fees)
Pyrford	Pooled multi asset	3 month LIBOR + 3%	3% above benchmark over rolling 3 year period (gross of fees)
Aberdeen	Bonds	3% FTSE UK Gilts > 15 yrs, 10% BAML > 10 yrs, 2% Citigroup WGBI, 3% 20year inflation swap, 2% FSTE A UK Gilt Gov Index-Linked	0.75% above benchmark over rolling 3 years period (gross of fees)
M&G	Bonds - Alpha Fund	3 Month LIBOR + 3%	3 Month LIBOR + 3 to 5 %.
M&G	Bonds - Index Linked	FTSE A British Government Over 5 Years Index-Linked	0.75% above benchmark over rolling 3 years period (gross of fees)
RREEF/ BlackRock	Pooled Property Funds	IPD UK All Pooled Property Funds Index	To outperform the benchmark
AVIVA	Property Fund of Funds	IPD UK All Pooled Property Funds Index	To outperform the benchmark
Partner's Group	Infrastructure	No tactical benchmark, but targets an absolute return of 8% per annum	No outperformance objective
M&G	UK Companies Financing Fund	No tactical benchmark, but assessed against 7 day LIBID and targets return of	No outperformance objective

Manager	Mandate	Tactical Benchmark	Performance Target
		10% pa net of fees	

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