




Report to:	Pension Committee	Date:	30 November 2015
Report title:	Investment Performance of the Fund Managers to September 2015		
Report from:	Gerald Almeroth, Strategic Director – Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Sunita Gordon		
Author(s)/Contact Number(s):	Lyndsey Gamble, Head of Financial Strategy and Planning 020 8770 5358 Lisa Doswell, Treasury and Investments Officer 020 8770 5354		
Corporate Plan Priorities:	<ul style="list-style-type: none"> • A Smart Council 		
Open/Exempt:	Open Exempt (Appendix B)		
Signed:		Date:	20 November 2015

1. Summary

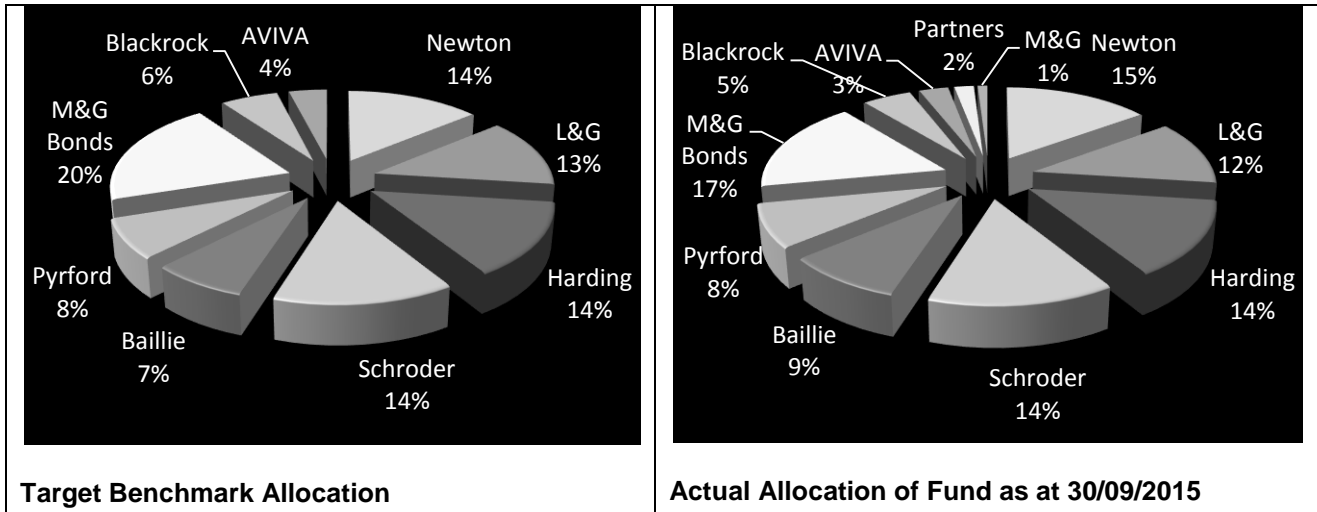
- 1.1. This report shows the performance of the Pension Fund Investment Managers for the quarter ending 30 September 2015, performance in the last twelve months, annualised rolling three year performance against target benchmark and performance since inception.

2. Recommendation

- 2.1 That the Pension Committee notes the performance of the Pension Fund Investment Managers.

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 30 September 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 currently targeted in bonds by M&G, however there is a long term strategic target to bonds of 15% and 5% to infrastructure, but this will take some time to implement. 10% of the fund is targeted 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.



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 The investment performance monitoring service has transitioned from WM to Northern Trust (The Fund’s custodian) and this is the second quarter in which Northern Trust’s performance data has been used to produce this report. There are currently some timing issues with regard to data being provided by Northern Trust. Further work is being undertaken to improve these processes going forward.

Movement in Fund Value from 30 June 2015 to 30 September 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 30/06/15 £'000	Value at end 30/09/15 £'000	Value change £'000	% Change
Total Equities	274,376	258,464	-15,912	-5.8
Legal & General	59,714	56,301	-3,413	-5.7
Newton	73,865	70,371	-3,494	-4.7
Harding Loevner	70,029	66,624	-3,405	-4.9
Schroder	70,768	65,168	-5,600	-7.9
Bonds	80,004	80,160	156	0.2
M&G bonds	80,004	80,160	156	0.2
Pooled Multi Asset	78,059	76,792	-1,267	-1.6
Baillie Gifford	40,381	39,317	-1,064	-2.6
Pyrford	37,678	37,475	-203	-0.5
Property	34,436	33,862	-574	-1.7
BlackRock **	22,589	21,744	-845	-3.7
AVIVA	11,847	12,118	271	2.3
Alternatives	11,451	12,509	1,058	9.2
Partner's Group*	6,737	7,743	1,005	14.9
M&G – Co's Financing Fund	4,714	4,766	52	1.1
Cash ***	16,117	8,330	-7,787	-48.3
Total Assets	494,443	470,117	-24,326	-4.9

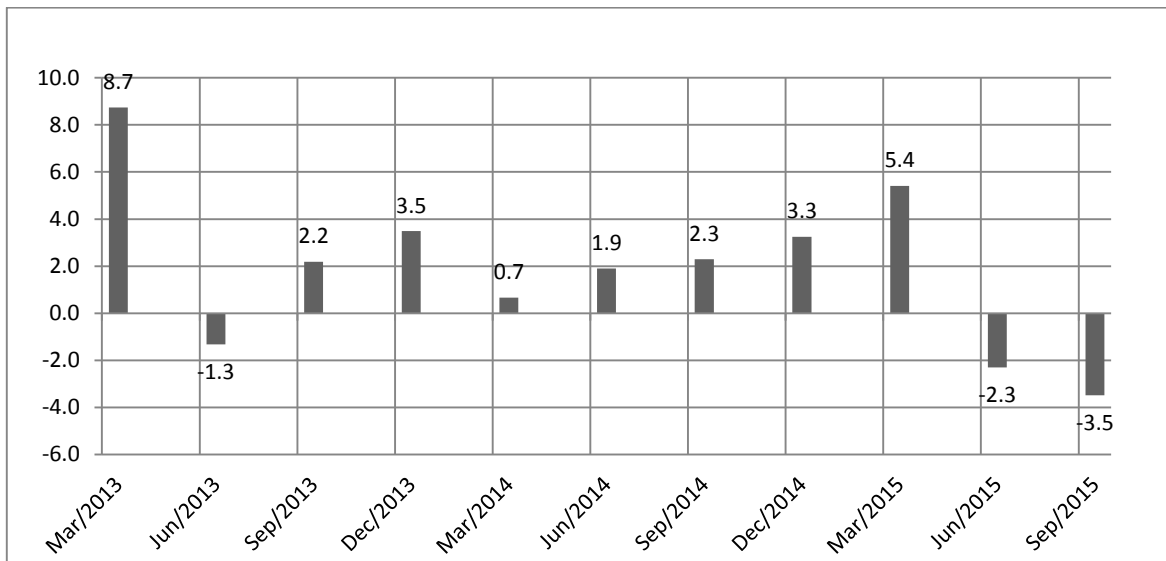
*The table above shows the change in value of the holdings over the last quarter. A seventeenth capital call payment was made to Partner's Group on 27 July for EUR 801k. This transaction represented approximately £569k.

** Income accrued on the BlackRock fund has been moved into a cash holding account pending draw downs.

***The level of cash has decreased by £7,787k during the quarter. This is largely due to bulk transfers of IT and college staff from the Sutton Pension Fund into the Kingston Fund following shared working arrangements and also includes the cash transfer from BlackRock as outlined above.



Fund Value Movement %



The above table excludes cash.

TOTAL FUND PERFORMANCE

Total fund performance pre and post strategy implementation

Benchmark 33 months to 31/10/12	Fund 33 months to 31/10/12	Variance	Benchmark 33 months to 30/09/15	Fund 33 months to 30/09/15	Variance
%	%	%	%	%	%
8.7	7.8	-0.9	7.1	7.8	0.7

4.4 Prior to the new strategy implementation the combined fund underperformed the benchmark by 0.9% over the previous 33 months (benchmark 8.7%, actual 7.8%). Looking at performance 33 months after the new strategy was implemented the combined fund outperformed the benchmark by 0.7% (benchmark 7.1%, actual 7.8%).

4.5 Total fund performance for the latest quarter ended 30 September 2015

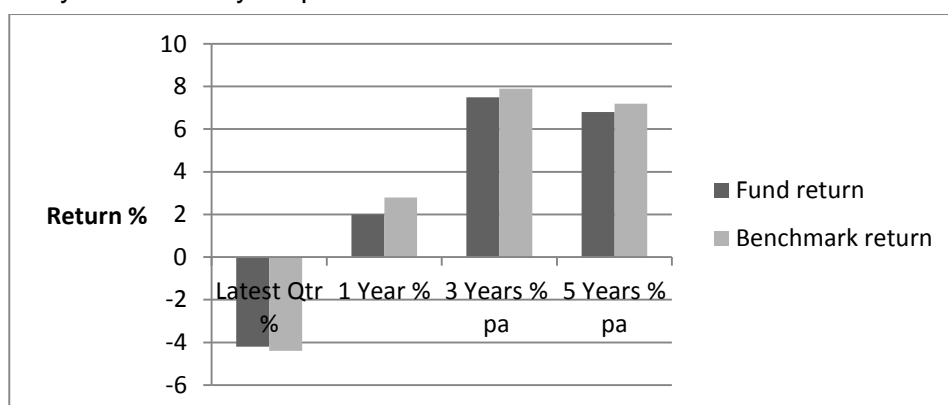
TOTAL FUND	Target Allocation	Fund Allocation	Benchmark Return	Fund Return	Variance
	%	%	%	%	%
Equities	55	55	-5.9	-5.8	0.1
Bonds	20	17	1.0	0.2	-0.8
Pooled Multi Asset	15	17	0.9	-1.7	-2.6
Property	10	8	3.0	2.1	-0.9
Alternatives	0	3	n/a	n/a	n/a
TOTAL ASSETS	100.0	100.0	-2.6	-3.4	-0.8

- 4.6 At total fund level the combined fund performance underperformed the benchmark by 0.8% over the period achieving a return of -3.4% compared to the benchmark return of -2.6%. Performance of individual asset classes is detailed in paragraph 4.9 onwards.

Total fund performance – longer term

TOTAL FUND	1 Year	3 Years	5 Years
	% pa	% pa	% pa
Fund return	2.0	7.5	6.8
Benchmark return	2.8	7.9	7.2
Variance %	-0.8	-0.4	-0.4

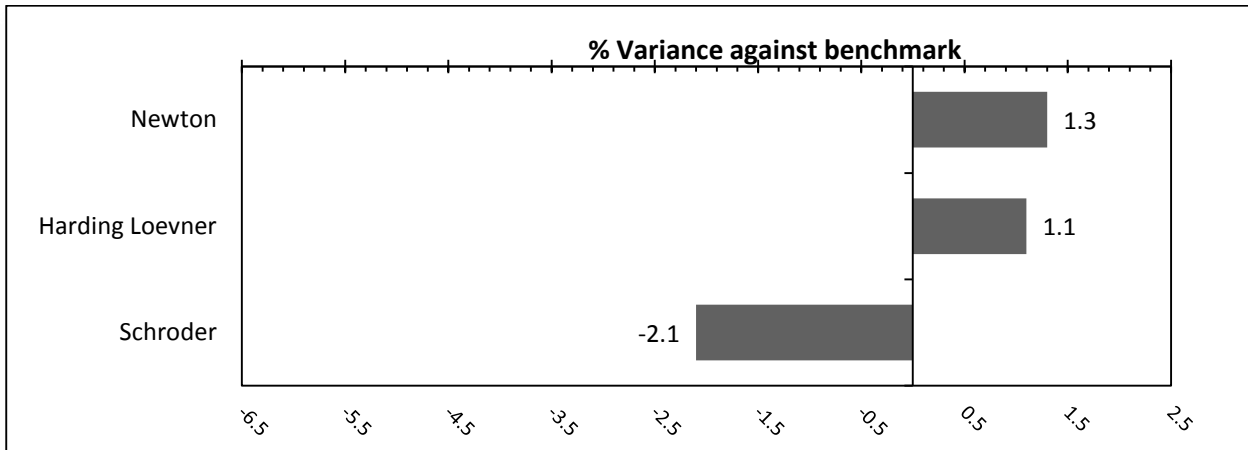
- 4.7 At total fund level, as at September the combined fund underperformed the benchmark by 0.8% over the past year and underperformed by 0.4% per annum over the past three years and underperformed by 0.4% per annum over the past five years.
- 4.8 The bar chart below summarises the overall performance of the fund over the latest, one year, three year and five year positions.



4.9 EQUITY PERFORMANCE

Equity performance for the latest quarter ended 30 September 2015

Manager	Target Allocation	Fund Allocation	Benchmark Return	Fund Return	Variance
	%	%	%	%	%
L&G	13	12	-5.7	-5.7	0.0
Newton	14	15	-6.0	-4.7	1.3
Harding Loevner	14	14	-6.0	-4.9	1.1
Schroders	14	14	-6.0	-8.1	-2.1
TOTAL EQUITIES	55	55	-5.9	-5.8	0.1



4.10 Stock markets continued tumbling during the quarter, resulting in the worst returns since 2011. This was caused by a combination of factors, but the most significant were concerns about the economic slowdown in China and the decision of the Federal Reserve to keep interest rates on hold. Dramatic declines in China’s stock markets caused investors to question the health of the Chinese economy, which has been an important area of global growth in recent years. Elsewhere, investors fled other emerging markets due to fears that the large debts these countries have incurred over several years for capital investments are becoming more difficult to repay. Online and software driven businesses continued to post strong results and sectors including electricity, tobacco and beverages did well. Mining, industrial metals and oil posted the largest declines as industrial commodity prices continued to fall.

4.11 As shown in table 4.9, Newton outperformed the benchmark and this was underpinned by an underweight position in emerging markets. Stock selection in the information technology sector, particularly stock in Google, was also beneficial. Harding Loevner also outperformed the benchmark. They benefitted similarly, by having good stocks in the more resilient sectors, particularly health care, materials and industrials, however holdings in emerging market sectors detracted from performance. However, Schroders underperformed the benchmark and this is attributed to positions in commodity exposed stocks and emerging markets. Their long standing avoidance of expensive utilities (particularly in the US) also detracted from returns, however they benefitted from positive stock selection in financials and healthcare. Their Value based investment strategy (large, quality, low cost companies) is still challenged by a market which currently leans more towards Growth opportunities.

4.12 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	-2.3	-2.3	0.0	5.5	5.5	0.0
Newton	4.3	4.3	0.0	9.5	12.1	2.6
Harding Loevner	-0.1	2.7	2.8	9.5	9.9	0.4
Schroders	-0.1	-4.9	-4.8	9.5	8.7	-0.8

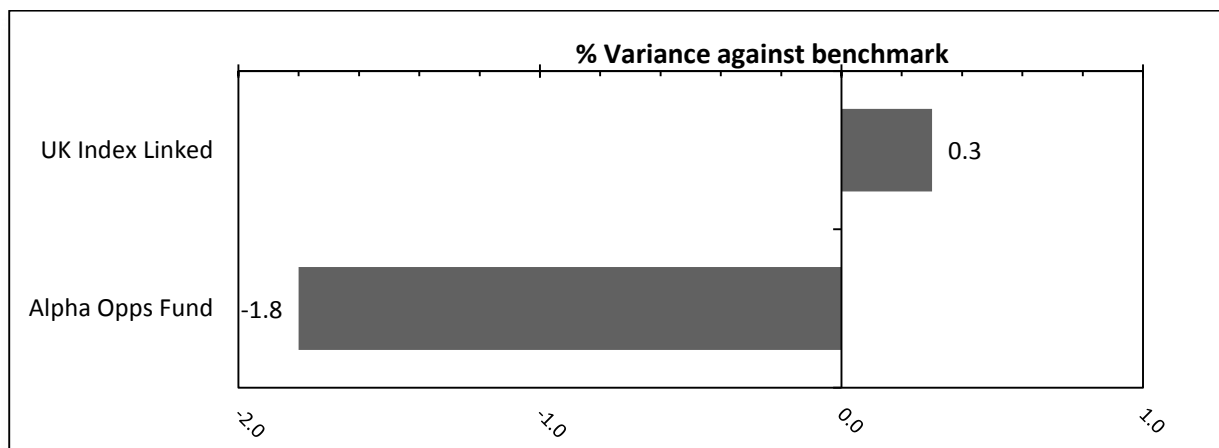


4.13 As shown in the table above, over the longer term L&G and Newton matched the benchmark during the twelve months ended September 2015, whilst Harding Loevner showed outperformance and Schroders underperformed. Since inception, L&G matched the benchmark, Newton and Harding Loevner outperformed the benchmark and Schroders underperformed.

4.14 BOND PERFORMANCE

Bond performance for the latest quarter ended 30 September 2015 (M&G)

	Target Allocation	Fund Allocation	Benchmark Return	Fund Return	Variance
	%	%	%	%	%
UK Index Linked	8	7.5	2.3	2.6	0.3
Alpha Opportunities Fund	12	9.5	0.1	-1.7	-1.8
TOTAL (Weighted Average)	20	17	1.0	0.2	-0.8



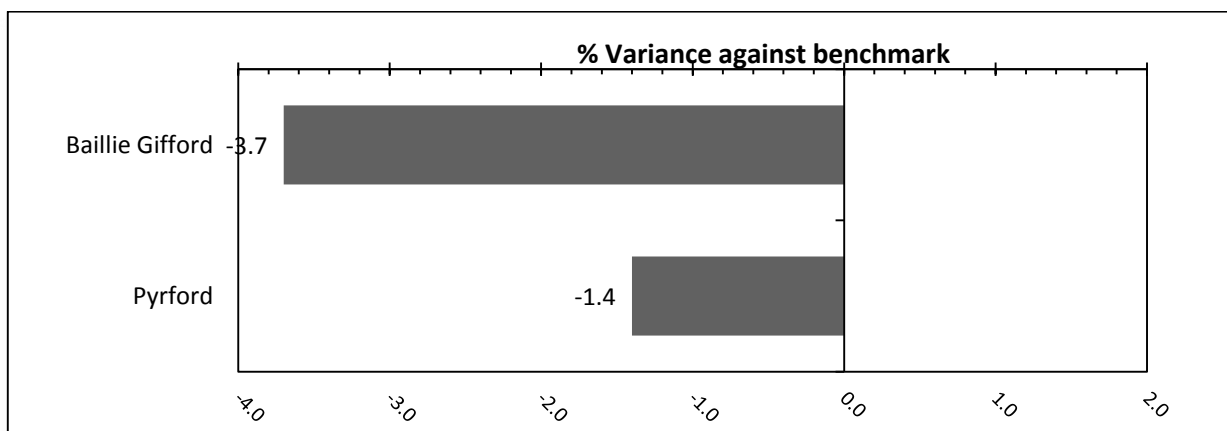
4.15 Concerns over the Greek bailout, the Chinese economy, falling commodity prices and company specific issues all contributed to a weak environment for credit markets. Index-linked government bonds produced positive total returns, although their performance lagged that of conventional UK government bonds or gilts. The fund took advantage of a number of irregularities in relative value across the index-linked UK government bond yield curve. As shown in table 4.14 above M&G outperformed in the UK Index Linked Fund and underperformed in the Alpha Opportunities Fund.



4.16 POOLED MULTI-ASSET PERFORMANCE

Pooled Multi-Asset Performance for the latest quarter ended 30 September 2015

Manager	Target Allocation	Fund Allocation	Benchmark Return	Fund Return	Variance
	%	%	%	%	%
Baillie Gifford	7.5	8.5	0.9	-2.8	-3.7
Pyrford	7.5	8.1	0.9	-0.5	-1.4
TOTAL POOLED MULTI-ASSET	15.0	16.6	0.9	-1.7	-2.6



4.17 Over the quarter Baillie Gifford underperformed the benchmark, which is largely attributed to large weightings in listed equities, emerging market bonds and high yield credit. A number of asset classes with low correlation to equity markets provided some protection, including active currency, absolute return and insurance-linked securities. Pyrford has reported strong returns from UK equities and bonds for the quarter, however their holdings in overseas equities negatively affected performance, particularly in Asian stocks, contributing towards their underperformance in the quarter.

4.18 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	3.7	0.5	-3.2	3.6	4.3	0.7
Pyrford	3.7	1.6	-2.1	3.6	2.5	-1.1

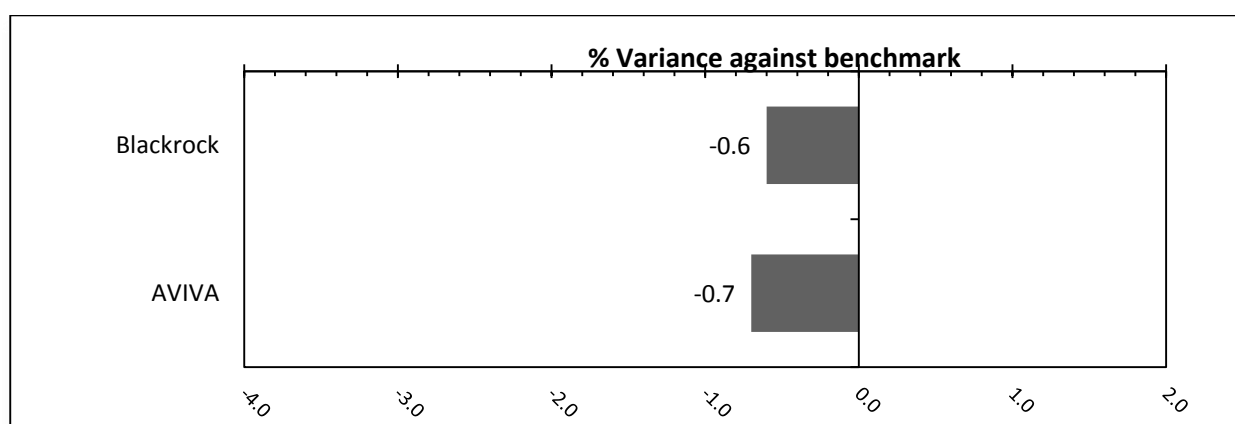
4.19 As shown in the table above, over the longer term Baillie Gifford and Pyrford both underperformed the benchmark during the twelve months ended September 2015. Since inception, Baillie Gifford has outperformed the benchmark and Pyrford has underperformed.



4.20 PROPERTY PERFORMANCE

Property Performance for the latest quarter ended 30 September 2015

Manager	Target Allocation	Fund Allocation	Benchmark Return	Fund Return Income	Fund Return Capital	Total Fund Return	Variance
	%	%	%	%	%	%	%
BlackRock	6	5	3.0	0.9	1.5	2.4	-0.6
AVIVA	4	3	3.0	0.8	1.5	2.3	-0.7



4.21 The UK commercial property market had another good quarter, however returns were slightly down on the previous quarter. Real estate yields are still attractive compared with other asset classes and investor demand remains strong. The dominant sectors are still industrials and offices, with the retail sector remaining stable. The Central London office and retail markets remained ahead of the other sectors and regions of the UK. Rents in these markets increased during the quarter and it is now occupiers driving up rents, rather than investors driving up prices.

4.22 Both BlackRock and AVIVA underperformed the benchmark in the quarter. BlackRock's underperformance continues to be attributed to contra-cyclical, lower risk assets, which provide outperformance in lower real estate markets and underperformance in higher markets. During the quarter BlackRock used the proceeds from the sale of Premier Marinas to complete four new purchases totalling £187.4m. AVIVA has benefitted from its specialist industrial and London office holdings. A strong performer is also their student accommodation fund. However a considerable negative impact continues to be made by their holding in the Standard Life UK Retail Park Trust. This is primarily due to the sale of two lower quality assets below valuation.



4.23 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	14.4	12.2	-2.2	4.0	0.3	-3.7
AVIVA	14.4	9.6	-4.8	9.1	8.4	-0.7

4.24 As shown in the table above, Blackrock and AVIVA both underperformed the benchmark during the twelve months ending September 2015 and also since inception.

4.25 ALTERNATIVES PERFORMANCE

Alternatives Performance for the latest quarter ended 30 September 2015

Manager	Benchmark Allocation	Fund Allocation	Fund Return
	%	%	%
Partner's Group – Infrastructure	0	2	6.0
M&G – UK companies financing fund	0	1	1.1

4.26 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.

4.27 Alternatives Performance – longer term

Manager	Fund Return 1 Year	Fund Return Since Inception
	%	%
Partner's Group	8.3	3.7
M&G	3.4	4.6

4.28 During the twelve months ending 30 September 2015, M&G has returned 4.6% and since inception they have returned 4.6%.



5 ANNUALISED ROLLING 3 YEARS TO 30 SEPTEMBER 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 Pyrford 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
Northern Trust Investment Performance Reports

Audit Trail		
Version	Final	Date: 19 November 2015
Consultation with other officers		
Officer	Comments Sought	Comments checked by
Finance	Yes	Lyndsey Gamble
Legal	N/A	N/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	No outperformance objective



Manager	Mandate	Tactical Benchmark	Performance Target
		8% per annum	
M&G	UK Companies Financing Fund	No tactical benchmark, but assessed against 7 day LIBID and targets return of 10% pa net of fees	No outperformance objective

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