

Committee: Pension Fund Advisory Panel

Date: 6th December 2017

Agenda item: 3

Wards: All

Subject: Pension Fund Performance (1st July - 30th September 2017)

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Philip Jones

Forward Plan reference number: N/A

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RECOMMENDATIONS

- a) Panel members are asked to note the content of this report, in particular, the market values and performance of the total Fund and component portfolios for the quarter ending 30th September 2017, attribution of the results and the market environment during the period.

1.0 PURPOSE OF REPORT

- 1.1 To report the investment performance at total Fund level, and of the individual fund managers, for the quarter to 30th September 2017.
- 1.2 The report gives the Panel a consistent basis on which to review the performance of the Fund as at 30th September 2017 and provide information to support future actions including implementation of the investment strategy, monitoring of the management arrangement and periodic rebalancing.

2.0 PERFORMANCE REPORT

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by State Street GS Performance Services provides useful analysis and insights of the Pension Fund activity and results for the quarter to 30th September 2017.
- 2.2 The report highlights the performance of the total Fund by asset class compared to the customised benchmark. It also includes comprehensive analysis of the performance of each manager against their specific benchmark and a comparison of performance over longer periods.
- 2.3 At 30th September 2017 the total Fund was valued at £661.6m, up by £7.7m (or 1.2%) since 30th June 2017.

3.0 Market Background/Outlook

- 3.1 Geopolitical and policy events remained the major talking points within investment markets over the quarter, as economic data was again positive and volatility within many markets was subdued. Following dovish statements from the European Central Bank and Bank of Japan, market guidance from the US Federal Reserve (Fed) meeting was the main focus as the summer ended. The Fed's more hawkish tone following its September meeting surprised markets, as it suggested it would begin trimming its USD 4.5 trillion balance sheet in October and also signalled another interest rate hike this year.

There was no change in policy from the Bank of England (BoE) over the quarter. While it is clear that an interest rate rise should be expected in the coming months, BoE Governor Mark Carney was keen to emphasise that rate increases are likely to be limited and gradual in a speech in September.

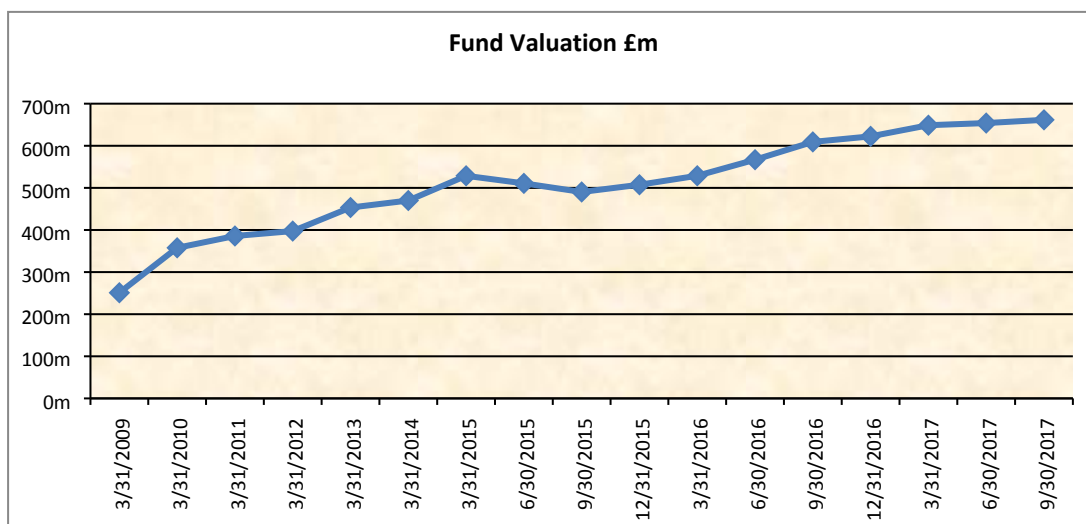
Economic data for the Euro area economy continues to show positive signs, despite continued strength in the Euro. Unemployment again fell and Q2 2017 GDP growth was confirmed at 2.5% on a seasonally adjusted annualised basis. In August, Manufacturing PMI readings in France, Italy and Spain surpassed those in Germany for the first time in 12 years.

4.0 PERFORMANCE OF THE FUND

- 4.1 The table below shows the Fund's strategic asset allocation as at 30th September 2017 against the asset allocation of the benchmark. The Fund was overweight in Equities and underweight in Bonds and Property compared to the benchmark.

At 30/09/2017	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
Fund Asset Allocation	73.7	22.5	0.4	3.4	100
Fund Benchmark	70.5	24.5	N/A	5.0	100
Difference overweight / (underweight)	3.2	(2)	N/A	(1.6)	-

- 4.2 The Fund underperformed the benchmark by 0.3% for the quarter ending 30th September 2017. It gained 1.1% compared to the benchmark return of 1.4% for the period.
- 4.3 The 0.3% underperformance was due to stock selection. The manager's results are discussed in more detail below in section 5.
- 4.4 The following graph illustrates the Fund's market value trend between 31st March 2009 and 30th September 2017. It shows that the market value of the Fund has appreciated by £411m or 164% over the 8 ½ yr. period.



- 4.5 The table below shows the market value of each Portfolio at the start and end of the period. The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of investments.

<i>Fund</i>	Market Value 30/06/17 £000	Capital Gain/loss £000	Income £000	Market Value 30/09/17 £000	% of Total Fund
UBS Passive Equity	290,732	4,355	1,276	296,517	45
Aberdeen Fixed Income	150,429	(2,005)	588	149,066	23
Aberdeen Active Equity	124,825	613	486	125,937	19
UBS Active Equity	65,298	1,001	581	66,950	10
UBS Property	15,581	217	121	15,919	2
BlackRock Property	7,074	111	41	7,230	1
Total External Fund	653,939	4,293	3,093	661,619	100
Internal Investments	150			150	
Total	654,089			661,769	

- 4.6 The following table provides detailed analysis of the return on the Fund's investment for the period relative to the benchmark.

Sector	Market Value	Market Value	Fund Return	Benchmark
	June 2017 £000	Sept 2017 %	Sept 2017 %	Sept 2017 %
UK Equities	282,928	287,889	1.7	2.1
Overseas Equities	196,754	199,625	1.9	2.3
• <i>North America</i>	67,033	67,964	1.4	1.4
• <i>Continental Europe</i>	54,544	56,167	3.2	3.7
• <i>Total Far East</i>	54,338	53,802	0.3	1.1
• <i>Other Intl Equities</i>	20,840	21,692	4.4	4.6
UK Bonds	37,827	37,445	(0.2)	(0.3)
Overseas Bonds	37,865	36,768	(2.0)	(1.5)
UK Index-Linked	74,599	74,713	(0.6)	(0.8)
Cash Alternatives	2,090	2,929	(0.6)	-
Property	21,876	22,250	2.3	2.4
Total	653,939	661,619	1.1	1.4

- 4.7 The Fund's assets are invested in various sectors and markets globally. During the quarter to 30th September 2017, all Equities yielded positive returns, but missed the benchmark. Property also yielded a positive return and also did not meet the benchmark. Fixed interest securities yielded negative returns

5.0 FUND MANAGER PERFORMANCE

UBS

- 5.1 UBS manages three portfolios for LB Merton Pension Fund.

(1) UBS Active Global Equity

- 5.2 The market value of the active equity portfolio managed by UBS was £67.0m (£65.3m in June 2017). During the quarter the manager's performance of 2.4% underperformed the benchmark of 2.5%.

The table below shows the movement during the period within the portfolio.

UBS Active Equity	30/06/2017		Purchases	Sales	Gain/Loss	Income	30/09/2017	
	£000	%	£000	£000	£000	£000	£000	%
Total Equities	64,724	99	9,224	8,465	1,001	652	66,484	99
Cash & Cash Alternatives	574	1	9,117	9,224	-	-	466	1
Total	65,298		18,341	17,690	1,001	581	66,950	100

The manager's mandate is summarised in the following:

- For the portion of the Active Portfolio invested in UK Equities, the manager shall seek to outperform the benchmark by 1% p.a.
- For the portion of the Active Portfolio invested in Emerging Markets, the manager shall seek to outperform the benchmark by 2.0% p.a.

Performance of the UBS Active Equity over various time periods

<i>Period</i>	Manager %	Benchmark %	Variance %	Comment
Last 3 months	2.4	2.5	(0.1)	underperformed
Last 12 months	11.4	12.6	(1.2)	underperformed
Last 3 years	7.7	8.9	(1.2)	underperformed
Last 5 years	9.4	10.2	(0.8)	underperformed

(2) UBS Global Equity (Passive)

- 5.3 The passive equity portfolio was valued at £296.5m (£290.7m in June 2017). During the quarter the manager's performance of 1.9% underperformed the benchmark of 2.0%.

The table below shows the movement of assets during the quarter.

UBS Passive	30/06/2017		Purchases	Sales	Gain/ Loss	Income	30/09/2017	
	£000	%	£000	£000	£000	£000	£000	%
UK Equities	160,223	55	4,670	3,380	1,973	1,312	163,486	55
North America	60,304	21	-	-	843	-	61,147	21
Continental Europe	35,373	12	-	-	1,308	-	36,681	12
Japan	17,438	6	-	-	155	-	17,592	6
Total Pacific (ex Japan)	17,736	6	-	-	76	-	17,812	6
Cash & Alternatives	(341)	-	4,810	4,670	-	1	(202)	-
Total	290,732	100	9,480	8,050	4,355	1,276	296,517	100

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	1.9	2.0	(0.1)	underperformed
Last 12 months	13.8	14.0	(0.2)	underperformed
Last 3 years	11.6	11.7	(0.1)	underperformed
Last 5 years	12.6	12.6	-	In-line

(3) UBS Property Fund

- 5.4 The market value of the property portfolio managed by UBS was £15.9m (£15.6m in June 2017). During the quarter the manager's performance of 2.2% underperformed the benchmark of 2.4%.

The table below shows the movement during the period within the portfolio.

UBS Triton (Property)	30/06/2017		Purchases	Sales	Gain/Loss	Income	30/09/2017	
	£000	%	£000	£000	£000	£000	£000	%
Property	14,802	95	-	-	217	121	15,019	94
Cash & Cash Alternatives	779	5	121	-	-	-	900	6
Total	15,581	100	121	-	217	121	15,919	100

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager	Benchmark	Variance	Comment
	%	%	%	
Last 3 months	2.2	2.4	(0.2)	underperformed
Last 12 months	8.9	9.3	(0.4)	underperformed
Last 3 years	9.0	8.9	0.1	outperformed
Last 5 years	7.7	9.5	(1.8)	underperformed

Aberdeen Asset Management

- 5.5 Aberdeen manages two portfolios for the LB Pension Fund.

(1) Aberdeen Active Global Equity

- 5.6 The market value of the active equity portfolio managed by Aberdeen was £125.9m (£124.8m in June 2017). During the quarter the manager's performance of 0.9% underperformed the benchmark of 2.5%.

The following below shows the movement during the period within the portfolio.

Aberdeen Active Equity	30/06/2017		Purchases	Sales	Gain/ Loss	Income	30/09/2017	
	£000	%	£000	£000	£000	£000	£000	%
UK Equities	66,516	53	4,386	3,720	69	571	67,251	54
North America	6,728	5	-	2	91	-	6,817	5
Continental Europe	19,171	15	714	815	416	49	19,486	16
Japan	10,722	9	-	342	(41)	-	10,339	8
Total Pacific (ex Japan)	8,443	7	-	342	(41)	-	8,059	6
Other Intl Equities	12,305	10	-	65	120	-	12,360	10
Cash & Alternatives	940	1	10,442	9,757	-	1	1,625	1
Total	124,825	100	15,541	15,043	613	486	125,937	100

- 5.7 Although this portfolio is an active mandate, 35% is held in pooled funds. The Manager is required to outperform the benchmark by 1.25% p.a over rolling 3yr periods.

This table shows the performance of the portfolio

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	0.9	2.5	(1.6)	underperformed
Last 12 months	12.7	14.8	(2.1)	underperformed
Last 3 years	9.5	11.2	(1.7)	underperformed
Last 5 years	9.8	11.6	(1.8)	underperformed

(2) Aberdeen (Bonds)

- 5.8 The market value of the bonds portfolio was £149.1m (£150.4m in June 2017). During the quarter the manager's performance of (1.0%) underperformed the benchmark of (0.9%).

The table below shows the movement during the period within the portfolio.

Aberdeen (Bonds)	30/06/2017		Purchases	Sales	Gain/ Loss	Income	30/09/2017	
	£000	%	£000	£000	£000	£000	£000	%
UK Bonds	37,827	25	421	341	(462)	392	37,445	25
Overseas Bonds	37,865	25	-	329	(769)	-	36,768	25
UK Index Linked	74,599	50	912	25	(773)	308	74,713	50
Cash & Alternatives	138	0	1,374	1,373	-	-	139	0
Total	150,429	100	2,708	2,067	(2,005)	588	149,066	100

The manager is required to outperform its benchmark by 0.75% p.a. over a rolling three year period.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	(1.0)	(0.9)	(0.1)	underperformed
Last 12 months	(4.1)	(4.5)	0.4	outperformed
Last 3 years	9.4	9.7	(0.3)	underperformed
Last 5 Years	7.7	7.7	-	In-line

BlackRock (Property)

- 5.9 The market value of the property portfolio managed by Blackrock was £7.2m (£7.1m in June 2017). During the quarter the manager's performance of 2.2% underperformed the benchmark of 2.4%.

The following table below shows the movement in the portfolio during the period.

<i>Blackrock</i>	30/06/2017		Purchases	Sales	Gain/Loss	Income	30/09/2017	
	£000	%	£000	£000	£000	£000	£000	%
Property	7,074	100	45	-	111	59	7,230	100
Cash & Cash Alternatives	-	-	45	45	-	-	-	-
Total	7,074	100	90	45	111	41	7,230	100

The manager is required to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK, principally, but not exclusively, in the retail, office and industrial/warehouse sectors.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	2.2	2.4	(0.2)	underperformed
Last 12 months	7.3	9.3	(2.0)	underperformed
Last 3 years	6.4	8.9	(2.5)	underperformed

6. OTHER ISSUES AFFECTING THE FUND

- 6.1 Update on the implementation of the pension fund investment strategy, introduction of MiFID II and Training Plan for the Pension Fund Advisory Panel and Merton Pension Board are the subjects of separate reports to this meeting.

7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 All relevant implications are included in the report.

8. LEGAL AND STATUTORY IMPLICATIONS

8.1 All relevant implications are included in the report.

9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

9.1 N/A

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

11. BACKGROUND PAPERS

11.1 StateStreet Analytics performance report and individual Fund Managers investment reports.

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