

London Borough of Merton Pension Fund Advisory Committee

Date: 3rd December 2015

Agenda item: 3

Wards: All

Subject: Performance of the Pension Fund for the Quarter Ending September 2015

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

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RECOMMENDATION

Members are asked to note the market values of the total fund and component parts for the quarter ending 30 September 2015, and attribution of the results.

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 30 September 2015.
- 1.2 This report is intended to give the Committee a basis on which to review performance of the Fund as at 30 September 2015 and provide information to support future actions including periodic rebalancing and strategic review.

2.0 PERFORMANCE REPORT

- 2.1 The Fund Analysis & Performance Report produced by WM Performance Services (attached) provides useful analysis and insights.
- 2.2 The report highlights the performance of the total Fund by asset class against the customised Fund benchmark. It also includes an analysis of the performance of each manager against their specific benchmark and a comparison of performance over time.
- 2.3 At 30 September the total Fund was valued at £495.3m (includes internal cash deposits) down by £25.8m or 4.9% during the quarter.

3.0 MARKET BACKGROUND/OUTLOOK

- 3.1 Global markets were volatile during the quarter with mining and commodity sectors worst affected. In September, the Federal Reserve (the Fed) left interest rates on hold in spite of market expectations of a rise. An unexpected devaluation in the Yuan and weaker-than-expected data releases stoked fears

that China's economic growth was likely to slow at a much faster-than expected rate.

3.2 The outlook for the UK economy, meanwhile, remained fairly positive amid speculation that the Bank of England could follow the Fed's lead and postpone its first interest rate increase in nearly a decade. In other developed markets, the fragile Eurozone economic recovery appeared to be on track, while the European Central Bank and the Bank of Japan continued monetary easing.

4.0 PERFORMANCE OF THE FUND

4.1 The following table shows the Fund strategic asset allocation as at 30 September 2015 compared to the benchmark allocation.

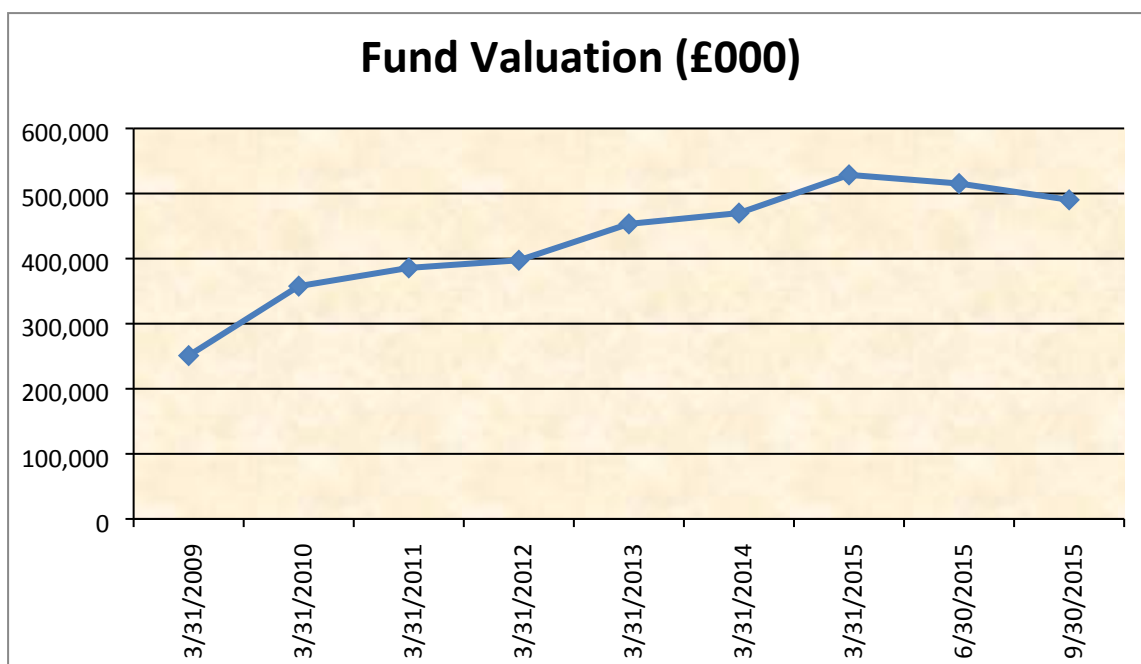
At 30/09/2015	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
Fund Asset Allocation	71.0	25.3	0.3	3.3	100.0
Fund Benchmark	67.9	26.7	0	5.3	100.0

4.2 The Fund underperformed the benchmark by 0.7% for the quarter ending 30 September 2015. It gained -4.0% against the benchmark return of -3.3% for the period. Underperformance during the period was attributed to stock selection (-0.4%) and asset allocation (-0.3%), the former being manager contribution and the latter ascribed to the Fund's strategic decision.

4.3 On a year-to-date basis the Fund underperformed its benchmark by 1.1%. The Fund produced 0.9% compared to benchmark return of 2.0%. Over 3 years, the Fund trailed the benchmark with a return of 7.2% versus 8.1% respectively.

4.4 In monetary terms, the negative return of -0.7% decreased the market value of the Fund by £20.4m during the quarter.

4.5 The graph below illustrates the Fund market value trend between 31 March 2009 and 30 September 2015. It shows that the Fund has grown significantly by £239m over the 7 ½ year period.



4.6 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 30/6/15 £000	Capital Gain/loss £000	Income £000	Market Value 30/09/15 £000	% of Total Fund
UBS Passive Equity	218,587	-13,134	924	206,405	42
Aberdeen Fixed Income	120,562	3,901	38	124,352	25
Aberdeen Active Equity	100,303	-9,047	507	91,761	19
UBS Active Equity	54,774	-4,502	465	50,856	10
UBS Property	10,171	242	105	10,408	2
BlackRock Property	6,323	137	25	6,512	1
Total External Fund	510,720	-22,404	2,063	490,294	100
Internal Cash from Contributions	10,400			5,000	
Total	521,120			495,294	

4.7 The Fund assets are well diversified across sectors, markets and geographies. During the quarter ending September 2015, equities finished the quarter in negative territory. Fixed income investment in aggregate, yielded only small positives.

4.8 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 2015	Sept 2015	Sept 2015 %	Sept 2015 %
UK Equities	224,444	210,133	-6.6	-5.7
Overseas Equities	148,670	138,171	-6.6	-6.9
• North America	51,484	49,221	-3.6	-3.5
• Continental Europe	40,590	38,529	-5.0	-4.5
• Total Far East	41,194	36,916	-10.0	-10.0
• Other Intl Equities	15,402	13,505	-12.0	-15.0
UK Bonds	29,836	31,325	4.0	4.0
Overseas Bonds	29,471	31,137	4.4	4.7
UK Index-Linked	61,217	61,856	2.4	2.3
Cash Alternatives	1,187	1,347	-4.2	n/a
Property	15,895	16,326	3.3	3.3
Total	510,720	490,294	100	100

5.0 FUND MANAGER PERFORMANCE

UBS

5.1 UBS manages three portfolios for LB Merton Pension Fund.

(1) UBS – Global Equity (Active)

5.2 Closed at a market value of £50.9m (June 2015 £54.8m).

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

UBS Active Equity	30/06/2015		Purchases	Sales	Gain/Loss	Income	30/09/2015	
	£000	%					£000	£000
Total Equities	54,252	99	6,627	5,920	-4,442	525	50,517	99
Cash & Cash Alternatives	522	1	6,445	6,568	-60	0	339	1
Total	54,774	100	13,072	12,488	-4,502	465	50,856	100

- 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	-7.4	-7.0	-0.4	Underperformed
Last 12 months	-4.2	-3.7	-0.5	Underperformed
Last 3 years	6.4	6.6	-0.2	Underperformed
Last 5 years	5.5	5.8	-0.3	Underperformed

(2) UBS - Global Equity (Passive)

5.3 Closed at market value of £206.4m (£218.6m June 2015).

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

<i>UBS Passive</i>	30/6/2015		Purchases £000	Sales £000	Gain/ Loss £000	Income £000	30/09/2015	
	£000	%					£000	%
UK Equities	121,427	55	2,396	1,578	-7,869	952	114,377	55
North America	45,532	21	0	450	-1,595	0	43,487	21
Continental Europe	25,697	12	0	0	-1,142	0	24,555	12
Japan	13,561	6	0	0	-1,079	0	12,481	6
Total Pacific (ex Japan)	12,678	6	450	0	-1,449	0	11,678	6
Cash & Alternatives	-307	0	4,511	4,378	0	0	-173	0
Total	218,587	100	7,357	6,406	-13,134	924	206,405	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	-5.6	-5.6	0	In line
Last 12 months	-0.7	-0.7	0	In line
Last 3 years	9.0	8.9	0.1	Outperformed
Last 5 years	7.9	7.9	0	In line

(3) UBS - Property Fund (Triton)

5.4 Closed at a total market value of £10.4m (£10.2m in June 2015).

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

<i>UBS Triton (Property)</i>	30/06/2015		Purchases	Sales	Gain/Loss	Income	30/09/2015	
	£000	%					£000	£000
Property	9,572	94	0	0	242	105	9,813	94
Cash & Cash Alternatives	599	6	-4	0	0	0	595	6
Total	10,171	100	-4	0	242	105	10,408	100

The manager is required 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	3.4	3.0	0.4	Outperformed
Last 12 months	15.0	14.4	0.6	Outperformed
Last 3 years	8.7	11.7	-3.0	Underperformed
Last 5 years	7.3	8.8	-1.5	Underperformed

UBS Triton produced a total return of 3.4% in the current quarter, comprising capital and income returns of 2.6% and 0.8%, respectively.

Aberdeen Asset Management

5.5 Aberdeen manages two portfolios for the LB Pension Fund.

(1) Aberdeen – Global Equity

5.6 Closed at a market value of £91.8m (June 2015 £100.3m).

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

<i>Aberdeen Active Equity</i>	30/6/2015		Purchases	Sales	Gain/ Loss	Income	30/09/2015	
	£000	%					£000	£000
UK Equities	54,761	55	3,705	2,887	-5,087	450	50,492	55
North America	5,952	6	70	0	-288	2	5,734	6
Continental Europe	14,893	15	0	0	-919	25	13,974	15
Japan	8,646	9	0	600	-762	35	7,284	8
Total Pacific (ex Japan)	6,310	6	0	0	-837	30	5,473	6
Other Intl Equities	9,407	9	0	0	-1,156	44	8,251	9
Cash & Alternatives	334	0	9,027	8,810	2	1	552	1
Total	100,303	100	12,802	12,297	-9,047	507	91,761	100

- 5.7 Although this portfolio is an active mandate 33% is held in pooled funds. The manager is required to outperform the benchmark by 1.25% p.a. over rolling 3-year periods.

This table shows the performance of the portfolio

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	-8.5	-7.0	-1.6	Underperformed
Last 12 months	-4.5	-2.5	-2.0	Underperformed
Last 3 years	5.2	7.0	-1.7	Underperformed
Last 5 years	6.2	5.7	0.5	Outperformed

(2) Aberdeen – Global Bond

- 5.8 Closed at a market value of £124.4m (June 2015 £120.6m).

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

Aberdeen (Bonds)	30/6/2015		Purchases £000	Sales £000	Gain/ Loss £000	Income £000	30/09/2015	
	£000	%					£000	%
UK Bonds	29,836	25	299	0	1,189	27	31,325	25
Overseas Bonds	29,471	24	359	0	1,308	15	31,137	25
UK Index Linked	61,217	51	0	769	1,409	31	61,856	50
Cash & Alternatives	38	0	659	658	-5	0	34	0
Total	120,562	100	1,317	1,427	3,901	38	124,352	100

The manager is required to outperform its benchmark by 0.60% p.a. over a rolling three year period.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance	Comment
Last 3 months	3.3	3.3	0	
Last 12 months	8.9	9.6	-0.7	Underperformed
Last 3 years	6.4	6.4	0.0	Underperformed
Last 5 Years	6.7	7.2	-0.4	Underperformed

BlackRock - Property

5.10 Closed at a market value of £6.5m (June 2015 £6.3m)

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

<i>Blackrock</i>	30/06/2015		Purchases	Sales	Gain/Loss	Income	30/09/2015	
	£000	%	£000	£000	£000	£000	£000	%
Property	6,323	100	52	0	137	40	6,512	100
Cash & Cash Alternatives	0	0	52	52	0	-15	0	0
Total	6,323	100	104	52	137	25	6,512	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	2.6	3.0	-0.4	Underperformed
Last 12 months	10.7	14.4	-3.2	Underperformed

6. OTHER ISSUES AFFECTING THE FUND

6.1 Review of the pension fund investment strategy and investment management arrangements is proposed. An update report on the procurement of investment adviser via a competitive tender process is the subject of a separate report to this meeting.

7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

7.1 All relevant implications are included in the report.

8. REGULATORY AND SPECIFIC LEGAL MATTERS

8.1 All relevant implications are included in the report.

9. COMPLIANCE WITH COUNCIL POLICIES EXTRANEIOUS TO PENSION PROVISION

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. APPENDICES

1. WM Performance Report for Periods to 30 September 2015

12. BACKGROUND PAPERS

12.1 StateStreet Analytics performance report and individual fund managers' investment reports

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