REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

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Papers with this report	Northern Trust Executive Report WM Local Authority Quarter Reports Private Equity Listing Private Equity reports from Adams Street and LGT

SUMMARY

This report provides a summary of fund manager performance for the quarter ending 31 December 2013. Full details of Manager performance over the quarter are contained in the attached Northern Trust report. The total value of the fund's investments as at the 31 December was £718m.

RECOMMENDATION

That the content of this report be noted.

1. PERFORMANCE

The performance of the Fund for the quarter to 31 December 2013 showed a relative underperformance of (0.18)%, with a return of 3.02% compared to the benchmark of 3.21%. One year figures show returns of 14.04%, 1.12% relatively better than the benchmark.

Performance Attribution Relative to Benchmark

	Value £m	**Q4 2013 %**	**1 Year %**	**3 Years %**	**5 Years %**	**Since Inception %**
Barings	63.4	0.87	-	-	-	(0.85)
JP Morgan	76.5	1.80	(1.09)	-	-	1.00
Kempen	46.9	(5.75)	-	-	-	(10.37)
Macquarie	6.0	2.75	1.26	(11.24)	-	(10.22)
M&G Investments	24.4	(0.51)	1.53	0.38	-	0.21
Newton	23.4	(2.08)	-	-	-	(3.55)
Ruffer	84.8	0.49	10.83	4.60	-	5.53
SsgA	143.4	(0.04)	(0.16)	(0.01)	(0.01)	0.01
UBS TAA	11.9	(3.76)	-	-	-	(6.00)
UBS	145.3	0.99	8.54	3.73	1.72	1.29
UBS Property	53.4	0.09	(0.36)	(0.30)	(1.15)	(0.64)
Private Equity	36.8	-	-	-	-	-
Total Fund	**718.4**	**(0.18)**	**1.12**	**0.70**	**(0.01)**	**0.04**

1.1 Manager: Barings Asset Management
Performance Objective: The fund aims to achieve an absolute return of 4% in excess of cash based on the 3 month Libor.
Approach: Focus on identifying and exploiting unrecognized growth opportunities.
Performance: In the quarter under review, Barings mandate returned 2.00% which compares favorably against the target of the 3 Month LIBOR +4% per annum, which posted 1.12%. However in the period since inception in April 2013 they returned 2.22% which is (0.85%) relatively below the target of 3.09%.

1.2 Manager: JP Morgan
Performance Objective: The investment objective of the company is to achieve a return of +3% over Libor 3 Month rate.
Approach: The aim of the portfolio is to be diversified across various corporate bonds with an average quality of BBB+ and derivatives may be used to achieve fund objectives.
Performance: To incorporate an element of risk adjusted return, the benchmark has been set to include outperformance of an absolute benchmark, in this case 3 Month Libor, by a further 3%. In relation to this benchmark JP Morgan have relatively outperformed since inception (Nov 2011) by 1.00%. In the quarter under review, JP Morgan relatively outperformed by 1.80 % with a return of 2.69 % against benchmark return of 0.87%.

1.3 Manager: Kempen International
Performance Objective: Seek to outperform their benchmark index by 2% per annum over rolling three year periods.
Approach: To earn a higher total return than its benchmark, MSCI World Total Return Index, including reinvestment of net dividends.
Performance: In the quarter under review, the Kempen mandate, produced a positive return with 0.12% versus 6.22% for the MSCI All World Index +2%, but relatively underperformed its' benchmark by (5.75)%. This translates into a since inception (January 2013) return of 5.82% compared to the benchmark return of 18.07% and a relative underperformance of (10.37)%. Q4, 2013 poor performance can be attributed to a combination of sector allocation (overweight utilities and cash underweight Information technology) and negative stock selection within sectors (e.g. Energy, Telecom and Industrials).

1.4 Manager: Macquarie
Performance Objective: Seek to outperform their benchmark index by 3% per annum over rolling three year periods.
Performance: Macquarie in contrast to their last quarter, outperformed the benchmark by 2.78% with a return of 3.65% against benchmark return (3 Month Libor+3% p.a) of 0.87%. Over the last twelve months Macquarie relatively outperformed the benchmark by 1.26% with a return of 4.83% compared to the benchmark of 3.53%. However, three years and since inception returns of (7.91)% and (6.84)% led to relative underperformance figures of (11.24)% and (10.22)% respectively.

1.5 Manager: M&G

Performance Objective: The investment objective of the Prudential/M&G UK Companies Financing Fund LP is to seek to maximise returns consistent with prudent investment management. The Fund aims to provide an absolute return of Libor +4-6% (net of fees). Additional returns may be achieved through equity participation or success fees.

Approach: The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market.

Relative Performance

	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	0.60	6.13	5.16	-	4.99
Benchmark	1.12	4.53	4.77	-	4.77
Relative Return	(0.51)	1.53	0.38	-	0.21

During the fourth quarter of 2013, M&G produced a 0.60% return, about (0.51)% less than the 3 Month LIBOR +4% p.a. Over the last year the account registers 6.13% against 4.53%; whilst since inception (May 2010), the portfolio returned 4.99% pa against the benchmark of 4.77% pa.

1.6 Manager: Newton

Performance Objective: To outperform the FTSE World Index by over 2% p.a. over rolling five year periods.

Approach: Increasing income and capital growth over the long term by investing in shares (i.e. equities) and similar investments of companies listed or located throughout the world.

Performance: During the fourth quarter of 2013 Newton posted a 3.31% return compared to 5.50% for the FTSE World Index +2%, leading to a relative underperformance of (2.08)%. Since inception (January 2013) Newton have delivered a return of 10.94% against the benchmark of 15.03%, producing a relative underperformance of (3.55)%.

1.7 Manager: RUFFER

Performance Objective: The overall objective is to preserve the Client's capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable United Kingdom bank.

Approach: Ruffer applies active asset allocation that is unconstrained, enabling them to manage market risk and volatility. The asset allocation balances "investments in fear", which should appreciate in the event of a market correction and protect the portfolio value, with "investments in greed", assets that capture growth when conditions are favourable. There are two tenets that Ruffer believes are central to absolute return investing which are to be agnostic about market direction and also to remove market timing from the portfolio.

Performance: The Ruffer portfolio returned 0.62% over the quarter under review, which was relatively 0.49% more than its benchmark of 3 Month Libor. Driven by Q4's return all longer periods show high absolute and relative returns. As a result, over the last twelve months they have posted a return of 11.40% against 0.52% for the target, resulting in the highest relative outperformance of all mandates at 10.83%. While since the inception in May 2010, 11 out of 14 quarters show positive returns and lead to figures of 6.33% versus 0.75% per annum, which translates as a relative return of 5.53%.

1.8 Manager: SSgA

Performance Objective: To replicate their benchmark indices

Approach: The calculation of the index for passive funds assumes no cost of trading. In order to simply match the index, it is necessary to trade intelligently in order to minimise costs, and where possible, make small contributions to return in order to mitigate the natural costs associated with holding the securities in the index. Activities which SSgA employ to enhance income include; tactical trading around index changing events and stock lending. They also aim to alleviate costs by efficient trading through internal and external crossing networks.

Relative Performance

	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	3.68	16.29	8.25	12.06	13.50
Benchmark	3.72	16.48	8.26	12.07	13.49
Relative Return	(0.04)	(0.16)	(0.01)	(0.01)	0.01

The SSGA passively managed portfolio produced a return of 3.68% in the quarter which was 4 basis points below the benchmark; further analysis confirms the passive nature with all categories aligned with their respective indices. So over the year they produce a 16.29% return, which is 16 basis points behind relative target, while over 3 years the per annum return falls to 8.25%, 1 basis point behind its benchmark. Since inception (November 2008) a return of 13.50% pa is also1 basis point short of the benchmark.

1.9 Manager: UBS Tactical Asset Allocation

Performance Objective: Outperform the Barclays Capital US Inflation Linked Index.

Performance: The UBS Tactical mandate during the quarter under review returned (7.93)% compared to benchmark of (4.34)%, translating to a relative underperformance of (3.76)%. Since inception (June 2013) returns was no better at (15.25)% against benchmark of (9.83)% .

1.10 Manager: UBS

Performance Objective: To seek to outperform their benchmark index by 2% per annum, over rolling three year periods.

Approach: UBS follow a value-based process to identify businesses with good prospects where, for a variety of reasons, the share price is under-estimating the company's true long term value. Ideas come from a number of sources, foremost of which is looking at the difference between current share prices and UBS's price target for individual stocks. The value-based process will work well in market environments where investors are focussing on long term fundamentals.

Relative Performance:

	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	6.51	31.12	13.49	16.27	10.61
Benchmark	5.46	20.81	9.41	14.31	9.21
Relative Return	0.99	8.54	3.73	1.72	1.29

Performance for the quarter was positive and ahead of the benchmark with the largest contributions to out-performance coming from overweight positions in Darty, BP and Carnival. UBS has again, outperformed the benchmark all through one, three and five year periods. This resulted in the since inception performance relative return increasing to 1.29% from 1.26% in Q3, 2013.

1.11 Manager: UBS Property

Performance Objective: To seek to outperform their benchmark index by 0.75% per annum over rolling three year periods.

Approach: UBS take a top down and bottom up approach to investing in property funds. Initially the top down approach allocates sector and fund type based on the benchmark. The bottom up approach then seeks to identify a range of funds which are expected to outperform the benchmark.

Relative Performance:

	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	4.39	9.07	5.44	4.23	0.19
Benchmark	4.30	9.46	5.75	5.44	0.83
Excess Return	0.09	(0.36)	(0.30)	(1.15)	(0.64)

The UBS Property portfolio produced a return of 4.39%, in contrast to last quarter this was 9 basis points above the IPD UK PPFI All Balanced Funds index figure of 4.30%. Underperformance continues to be seen in all long periods, with one, three and five years showing positive returns of 9.07%, 5.44% and 4.23 % respectively. But these were (0.36)%, (0.30)% and (1.15)% below their benchmarks. Since inception, in March 2006, the funds loses value with a figure of 0.19% against benchmark of 0.83% return, meaning the underperformance is now (64) basis points.

2. ABSOLUTE RETURNS FOR THE QUARTER

	Opening Balance	Net Investment	Appreciation £000's	Income Received	Closing Balance	Active Management

	£000's			£000's	£000's	Contribution £000's
Barings	62,112	11	1,242	-	63,365	544
JP Morgan	74,497	-	2,002	-	76,499	1,351
Kempen	46,782	30	54	-	46,866	(2,871)
Macquarie	6,613	(895)	253	-	5,971	159
M&G	22,253	1,972	145	-	24,370	(126)
Newton	22,637	-	749	-	23,386	(506)
Ruffer	84,242	(1)	242	284	84,767	415
SSgA	138,355	-	5,092	-	143,447	(55)
SSgA Drawdown	1	-	-	-	1	-
UBS	136,436	-	7,906	970	145,311	1,409
UBS Property	51,141	-	1,699	548	53,388	50
UBS TAA	12,966	(20)	(1,054)	27	11,919	(454)

The above table provides details on the impact of manager performance on absolute asset values over the quarter based on their mandate benchmarks.

3. Other Items

At the end of December 2013, £23.8m (book cost) had been invested in **Private Equity**, which equates to 3.32% of the fund against the target investment of 5.00%. This level is within the limits of the over-commitment strategy of 8.75%. In terms of cash movements over the quarter, Adams Street called £298k and distributed £934k, whilst LGT called £396k and distributed £1,017k. This trend is set to continue in the next few years as the fund's investments in private equity climbs up the "J-Curve" and more distributions will be received as the various funds mature.

The **securities lending** programme for the quarter resulted in income of £13.7k. Offset against this was £4.8k of expenses leaving a net figure earned of £8.9k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 December 2013 the average value of assets on loan during the quarter totalled £25.2m representing approximately 12.5% of this total.

The passive currency overlay agreed by Committee was put in place at the end of January 2011 with 100% Euro hedge. The latest quarterly roll occurred on the 6 February 2014 and yielded a realised gain of £262k.

For the quarter ending 31 December 2013, Hillingdon returned (0.18) %, underperforming against the WM average of 3.70% by (3.88) %. The one year figure also, shows an under-performance of (0.96) %, returning 14.04% against the WM average return of 15.0%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None