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 March 2014. The total value of the fund's investments as at 31 March 2014 was £724m.

RECOMMENDATION

That the content of this report be noted.

1. GENERAL MARKET PERFORMANCE

Investors entered 2014 expecting the positive trends of 2013 – stronger economic performance, higher equity markets and higher bond yields - to continue. In the event, nervousness caused by Russia's invasion of Crimea, fresh evidence of problems within the Chinese credit system and a slew of weak economic data, resulting from the severe winter weather, saw all the early hopes dashed quickly.

As the quarter progressed investors were able to take comfort in actions by the Chinese Authorities to exert some control over the process of defaults and in signals from the US Federal Reserve that the process of monetary policy normalization would not quickly lead to higher official short term interest rates. World equity markets returned over the quarter 0.7% over the quarter (+7.6% over the year).

Despite the recovery in equity markets, long term interest rates fell steadily over the period. Lower yields are hostile to the interests of pension funds and funds remain heavily underweight. The JPM Global Government Bond index advanced 2.0% over Q1 2014, while the Barclays Capital Global Aggregate Corporate Bond index delivered 1.9%.

Further comments on the market backdrop are contained in the detailed report prepared by Northern Trust and in the Investment Advisor's report.

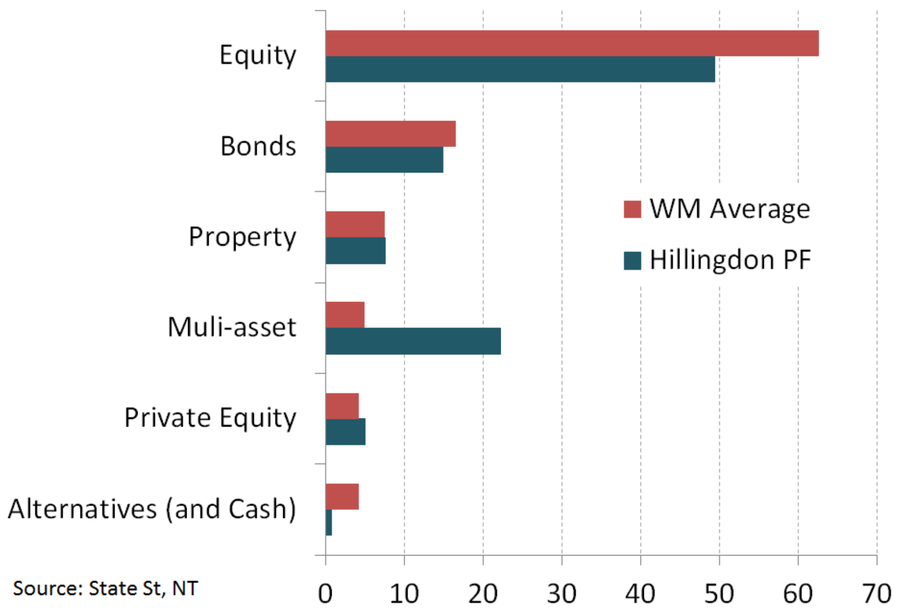
2. FUND PERFORMANCE

The performance of the Fund for the quarter to 31 March 2014 showed a relative outperformance of 0.17%, with a return of 0.97% compared to the benchmark of 0.80%. One year figures show returns of 6.78%, 0.32% relatively better than the benchmark.

Against the average LGPS (as captured by WM data) for the quarter ending 31 March 2014, the Fund outperformed by 0.07%. The one year figure also shows out performance, this time by 0.34%.

The investment objective for the Hillingdon Pension Fund, agreed with the Actuary, is to generate, over the longer term, a real rate of return of 4% per annum; the current asset allocation is judged appropriate to that objective. Other LGPS will have set their objectives appropriate to their Scheme characteristics. Funds seeking greater returns will typically operate a higher allocation to riskier investments and vice versa.

The WM survey combines all LGPS regardless of their objectives. The chart immediately below depicts the higher level contrast between the asset allocation of the average LGPS and that currently maintained by Hillingdon. The principle difference lies in the weightings to equities and multi-asset programmes. The past 12 months have seen equity markets outperform multi-asset programmes.



The Hillingdon Pension Fund's investment strategy comprises a deliberate defensive bias both through the strong allocation to multi-asset programmes – where the managers are tasked to deliver specific investment returns rather than track establish market benchmarks – and through the allocation to equity programmes that have a focus on sustainable dividend yields. Recent quarters have seen many investors turn much more optimistic about the outlook for the world economy and financial markets. In the face of ongoing debt accumulation and the continued threat of outright deflation, such optimism is judged dangerous.

3. MANAGER / PROGRAMME SUMMARY

The table below provides an update on the range of programmes into which the assets of the Pension Fund are deployed. With the exception of the State Street allocation, all programmes are actively managed.

Also shown in the table are the individual programme costs. Across the Scheme, the aggregate annual excess return pursued in the spread of mandates is 2.2% against which the Scheme incurs approximate investment management costs of 0.45% p.a. This is a ratio of 5:1, ahead of an approximate norm of 4:1.

Performance Attribution Relative to Benchmark (rounded)

	Value £m	Q1 2014 %	1 Year %	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)	Target (% p.a.)	Fees (% p.a.)
Barings	63.0	(1.6)	-	-	-	(2.5)	4.0	0.50
JP Morgan	77.4	0.3	(0.3)	-	-	1.0	3.0	
Kempen	77.4	(0.4)	(9.4)	-	-	(9.2)	2.0	0.42
Macquarie	5.9	(2.9)	(4.4)	(9.7)	-	(10.3)	3.0	1.38
M&G	25.9	0.3	0.8	0.8	-	0.3	4.0	1.5
Adams St*	21.2	6.9	7.5	10.6	12.1	2.5	4.0**	1.20
LGT*	15.8	2.0	5.4	6.6	6.0	8.3	4.0**	1.00
Newton	23.6	(0.0)	(4.9)	-	-	(3.0)	2.0	0.75
Ruffer	84.5	(0.4)	0.2	4.7	-	5.0	4.0**	0.80
SSgA	144.0	(0.0)	(0.2)	(0.0)	0.02	0.0	0.0	0.10
UBS TAA	12.9	6.4	-	-	-	(0.0)	0.0	n/a
UBS Eq	115.9	1.0	10.0	4.4	2.23	1.3	2.0	0.35
UBS Property	55.0	(0.2)	(0.1)	(0.4)	(1.24)	(0.6)	1.0	0.20
Total Fund	**724.3**	**0.2**	**0.3**	**0.8**	**0.1**	**0.0**	**2.2**	**0.45**

*Absolute performance
**Set against LIBOR

Further details on manager performance are contained in the Northern Trust report.

3. Other Items

At the end of March 2014, £22.058m (book cost) had been invested in **Private Equity**, which equates to 3.04% 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 £279k and distributed £1,300k, whilst LGT called £283k and distributed £495k. 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 £9.5k. Offset against this was £3.3k of expenses leaving a net figure earned of £6.2k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 March 2014 the average value of assets on loan during the quarter totalled £17.3m representing approximately 9.86% 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 May 2014 and yielded a realised gain of £284k.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None