

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers

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Papers with this report

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SUMMARY

This report reviews the fund management performance for the London Borough of Hillingdon Pension Fund for the period ending 30 September 2010. The value of the fund as at the 30 September was £560m.

RECOMMENDATIONS

1. That the content of this report be noted and the performance of the Fund Managers be discussed.

INFORMATION

1. The fund delivered positive performance of 8.01% for the quarter to 30 September 2010, underperforming the benchmark by 1.2%. One year, three year, five year and since inception figures show returns of 8.59%, (2.18%), 3.06% and 6.28% respectively.

Performance Attribution Relative to Benchmark

	Q3 2010 %	1 Year %	3 Years %	5 Years %	Since Inception %
Goldman Sachs	0.29	0.84	(1.02)	(0.60)	(0.62)
UBS	1.06	(4.52)	(1.94)	(2.21)	1.05
Alliance Bernstein	(0.17)	(5.10)	(5.76)	-	(4.00)
UBS Property	0.16	(5.01)	(0.66)	-	(0.75)
SSgA	(0.07)	(0.01)	-	-	0.07
SSgA Drawdown	0.34	0.61	-	-	0.63
Ruffer	3.29	-	-	-	0.44
Marathon	4.05	-	-	-	4.31
Fauchier	(2.60)	-	-	-	(2.60)
Total Fund	(1.20)	(3.23)	(3.13)	(2.15)	(0.45)

2. A major impact on performance was the positive currency effect which added 1.06%. This was mainly due the underweight position in the weak US Dollar and an overweight position in the strong Euro. Overall performance was dragged down by asset allocation, with underweight positions in both the UK and US markets

detracting 0.30% and 0.71% respectively. An overweight position in Europe which added 0.58% was not enough to offset these effects.

3. Both the whole fund and manager benchmarks are currently under review and will be discussed further early in the New Year.

Market Commentary

4. Following a poor previous quarter, equity markets rebounded with impressive returns in quarter three. Strong earnings and encouraging Eurozone bank stress testing results, complemented by positive bank earning reports helped push markets higher at the start of the quarter. Sentiment then changed with weak factory order and housing data from the US and with the Federal Reserve downgrade of it's assessment of the economy. However towards the end of the quarter positive momentum returned after a surprise jump in the Purchasing Managers Index.
5. Government bond yields continued to fall up to August as fears of a double dip resurfaced. This was followed by an improvement in September as these fears began to abate. The recovery in yields then faltered as the market started to price in a potential extension to US quantitative easing. Credit spreads across investment grade bonds narrowed in line with improving equity markets.
6. The UK commercial property market continued to gain in the third quarter of 2010, adding to the improvements at the start of the year. The forward looking real estate derivative market still indicates further gains for the remainder of the year.

Manager Performance

7. **Alliance Bernstein** returned 8.58% against a benchmark of 8.75% underperforming by 0.17%. Stock selection had the largest negative impact on performance and positive contributions from underweight Japanese and overweight Emerging Market positions were insufficient to counterbalance this.
8. **Marathon** returned 12.07% outperforming their benchmark by 4.05%. A significant impact on performance was the portfolios exposure to South East Asia, where stock markets continued to be strong. With regard to relative returns most value was added through stock selection.
9. **UBS** delivered a positive return of 14.69% for the quarter, outperforming against their benchmark by 1.06%. Their consistent strategy of combining strong international mega caps with cheap domestic cyclicals aided performance over the quarter.
10. **GSAM** outperformed their benchmark by 0.29% returning 4.88%. Their corporate selection strategy contributed towards performance. Underweight positions in large UK names and selections within the finance sector including Lloyds, BNP and Standard Life added to performance. Industrial names also added through positions in Marks and Spencer and Glencore.

11. **Fauchier** underperformed their benchmark by 2.60% by delivering a negative performance figure of 1.19%. A high correlation in share price movement has made it difficult for Fauchier to discriminate through long/short security selection.
12. **Ruffer** outperformed their cash benchmark by 3.29% by delivering a return of 3.47%. Factors which helped performance included allocations to Index Linked Bonds which rose globally, Gold equities which rose alongside the strength of Gold bullion and good performance from Western Equities.
13. The **UBS Property** portfolio showed a positive return of 2.06% against a benchmark of 1.90%. The best performance from the portfolio came from five funds including Henderson UK Property, Henderson UK Retail Warehouse, UBS Triton, Blackrock UK Property and Standard Life Pooled Pensions Property.
14. **SSgA** - The requirement for SSgA as a passive manager is to replicate their performance benchmark. The main account delivered a return of 10.06% underperforming against its benchmark by 0.07%, whilst the draw down provided a return of 2.81%, an outperformance of 0.34%.

Absolute Returns

	Opening Balance £,000	Appreciation £,000	Income Received £,000	Closing Balance £,000	Active Management Contribution £,000
Alliance Bernstein	52,145	4,226	250	56,621	(33)
Fauchier	24,800	(296)	-	24,504	(645)
GSAM	63,388	3,021	74	66,483	185
Marathon	47,432	5,723	-	53,155	1,875
Ruffer	48,955	1478	220	50,653	1,608
SSgA	117,218	10,301	-	127,519	9
UBS	90,380	12,496	783	103,659	1,018
UBS Property	44,054	451	458	44,963	73

15. The above table provides details on the impact of manager performance on absolute asset values. The outperformance of GSAM, Marathon, Ruffer, SSgA, UBS and UBS Property had a positive impact on the appreciation of holdings contributing £4,768k in total. Underperformance from Alliance Bernstein and Fauchier reduced appreciation by £678k.
16. **M&G** hosted an update meeting on the UK Companies Financing Fund on 15 October 2010. Speakers from M&G, the Association of Corporate Treasurers and

the Civil Service discussed the background to the market and current opportunities to invest. Following the meeting M&G canvassed the opinion of investors on how the fund should function in the future and whether any changes to its mandate would be beneficial. The result of this exercise was to leave everything in its current state. M&G will review the position at the end of the first quarter in 2011.

17. **Maquarie** - At the June Committee meeting, the infrastructure strategy was discussed and allocations to Europe, US, India and China were agreed. In October, Macquarie issued the first set of paperwork and a subscription of US\$4m was made to the Macquarie SBI Infrastructure Fund (India). Following this subscription the first draw down request was received and the funds have now been lodged with Macquarie.
18. **Private Equity** - At the end of June 2010, £28.89m (book cost) had been invested in private equity, which equates to 5.16% of the fund against the target investment of 5%. However this level still remains within the limits of the over-commitment strategy of 8%. In terms of cash movements over the quarter, Adams Street called £346k with no distributions whilst LGT called £1,248k and distributed £967k.
19. The **securities lending programme** for the quarter resulted in income of £23.6k. Offset against this was £8.3k of expenses leaving a net figure earned of £15.3k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 September 2010 the assets on loan totalled £27.6m representing approximately 13% of this total.
20. For the quarter ending 30 September 2010, Hillingdon returned 8.01%, underperforming against the WM average by 0.19%. The underperformance over the last two quarters has had a negative impact on the one year results which now show an underperformance of 2.41% against an average return of 11.0%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None