

Committee: Pension Fund Advisory Committee

Date: 23 June 2015

Agenda item: 5

Wards: All

Subject: Performance for the Quarter Ending March 2015 and Position Statement

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

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Recommendations:

- a.) Note the content of this report; and
- b.) Note the concerns raised by AllenBridge Epic regarding individual manager and Fund performance

1.0 Purpose of report and executive summary

1.1 This report includes details of the investment performance of Merton's Pension Fund for the quarter ending March 2015. Individual investment managers have provided performance reports for the various portfolios, in addition to a quarterly performance report from State Street Analytics. This report is intended to give the Committee a basis on which to review performance of the Fund as at 31 March 2015 and provide a platform to discuss future actions for the Fund or tactical investment changes.

2. Fund Performance

2.1 Fund Asset Allocation and Performance

The table below shows the fund strategic asset allocation as at 31 March 2015 against the asset allocation of the Fund's benchmark. At the end of the period, 73.7% of total Fund assets invested in equity, 41.31% was actively managed and 58.69% is passively managed.

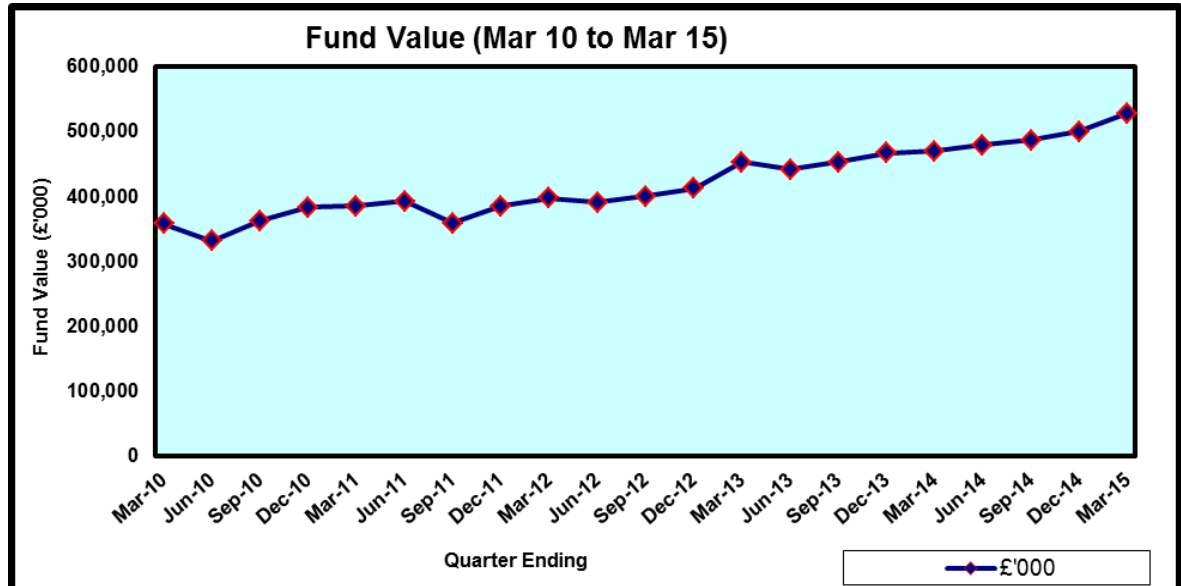
At 31/12/2014	Total Equity	Total Bonds	Cash/Alts	Property	Total Fund
	%	%	%	%	%
Fund Asset Allocation	72.7	24.1	0.4	2.9	100.0

Asset of Fund Benchmark	70.6	24.5	0.0	4.9	100.0
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The Fund's marginally out performed its benchmark by 0.1% this quarter. On a year to date basis the Fund underperformed against its benchmark by 0.4%. The table below summarises the capital movement and increase in market values reinvested in the quarter between the managed funds.

Fund	31/12/14 Values	Transactions	Capital Gain/loss	Income	31/03/15 Values	% of Total Fund
UBS Passive	212,206	544	13,477	515	226,227	43
Aberdeen Fixed Income	122,621	2,685	1,846	2,692	127,152	24
Aberdeen Active Equity	97,269	720	6,440	843	104,430	20
UBS Active Equity	52,584	322	1,889	265	54,796	10
UBS Property	9,588	119	229	89	9,936	2
BlackRock Property	5,977	69	85	50	6,131	1
Total External Fund	500,246	4,459	23,966	4,455	529,671	100
Internal Cash from Contributions	0				13,000	
Total	500,246				542,671	

Value of investment managed by external managers increased in value by £29.4m from last quarter. The chart below shows Fund annual market values between March 2010 to March 2015.



The Fund's assets are invested in various sectors and geographical locations. During the quarter ending March 2015, UK equities in the fund underperformed while overseas equities outperformed benchmark. The table below show the performance of the whole fund in the various geographical areas it is invested in relative to Benchmark at the end of the quarter.

Sector	Fund Return Dec 2014 %	Closing Value March 2015	Fund Return March 2015 %	Benchmark %
UK Equities	215,102	226,951	4.6%	4.7%
Overseas Equities	146,596	157,216	9.3%	9.3%
• North America	52,741	54,064	5.9%	5.9%
• Continental Europe	38,523	43,598	11.4%	10.9%
• Total Far East	40,760	43,400	12.0%	12.8%
• Other Intl Equities	14,571	16,154	8.7%	7.32%
UK Bonds	31,186	31,991	4.6%	4.0%
Overseas Bonds	29,428	31,351	3.9%	3.0%
UK Index-Linked	61,964	63,774	3.3%	3.3%
Cash Alternatives	874	1,909	0.8%	
Property	15,096	15,479	3.0%	2.8%
Total	500,246	528,671	5.7%	5.6%

3. INVESTMENT MANAGER PERFORMANCE

3.1 UBS

UBS manages three funds for LB Merton pension fund.

The UBS active equity fund closed at a market value of £54.4m (December 2014 52.5m). The table below shows the movement during the period within the portfolio.

	31/12/2014 Values		Purchases	Sales	Gain/Loss	Income	31/03/2015	
	£'000	%					£'000	£'000
Total Equities	52,253	99	2,848	2,583	1,889	324	54,408	99%
Cash & Cash Alternatives	331	1	2,929	2,873	0	0	388	1%
Total	52,584	100	5,777	5,455	1,889	265	54,796	100

Performance of the UBS Active Equity Fund over various time periods

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	4.1	5.0	-0.8	Under performance
Last 12 months	5.0	7.3	-2.1	Under performance
Last 3 years	9.1	10.1	-1.0	Under performance

Last 5 years	6.6	7.6	-0.9	Under performance
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For the portion of the Active Portfolio invested in UK Equities, the manager shall seek to outperform the Benchmark by 1% per annum. For the portion of the Active Portfolio invested in Emerging Markets, the manager shall seek to outperform the Benchmark by 2.0% per annum.

The UBS Global Equity fund (passive portfolio) closed at market value of £226.2m (212.2m December 2014). The increase is mainly income from dividend and some capital gains from valuations. The aim of this fund is for the manager at the minimum to replicate track the performance of the benchmark.

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

	Asset Allocation							
	Market Value 31/12/2014		Purchases	Sales	Gain/ Loss	Income	Market Value 31/03/2015	
	£'000	%	£'000				£'000	%
UK Equities	116,825	55	4,336	1,867	4,888	542	124,182	55
North America	45,087	21			2,662		47,749	21
Continental Europe	24,800	12			2,707	0	27,749	12
Japan	13,223	6			2,163		13,886	6
Total Pacific (ex Japan)	12,445	6			1,057		13,503	6
Cash & Alternatives	-175	0	6,084	6,509	0	1	-600	0
Total	212,206	100	10,420	9,876	13,477	515	226,227	100

This table shows the performance of the portfolio.

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	6.6	6.6	0.0	In line with benchmark
Last 12 months	12.3	12.1	0.2	In line with benchmark
Last 3 years	12.9	12.8	0.1	In line with benchmark
Last 5 years	9.6	9.6	0.0	In line with benchmark

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

There passive portfolio includes investments in 7 pooled funds namely (UK Life Equity Tracker Fund, UK Life Equity Small Cap Tracker Fund, UK Life Large & Mid Cap Tracker Fund, UK Life Europe Ex-UK Equities Tracker Fund, Japan Equity Tracker Fund, Pacific Ex-Japan Tracker Fund and North America Equity Tracker fund . Total exposure to all seven pooled funds at 31 March 2015 was £138.4m.

UBS Property Fund

The UBS Property fund closed at a total market value of £9.9m. The fund underperformed against benchmark by 3.3%.

The three tables below show that the UBS Triton performance comprises of capital and income that the returns of 3.3% can be attributed to performance in each of the two sub funds.

	Market Value 31/12/2014		Asset Allocation				Market Value 31/0/2015	
	£'000	% of Fund	Purchases	Sales	Gain/ Loss	Income	£'000	% of Fund
Property	9,119	95%			229	89	9,348	94
Cash& Money Mkt Instruments	469	5%	119		0		588	6
Total	9,588	100%	119		229	89	9,936	100

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	3.3	2.8	0.5	Out performance
Last 12 months	19.0	16.6	2.4	Out performance
Last 3 years	6.1	9.4	-3.3	Under performance

The table below shows the performance of sub-funds that make up the Portfolio

	Q1 2015 %	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
UBS Triton Property Fund (gross)	+3.5	+19.7	+6.3	+7.4	+2.6
UBS Triton Property Fund (net) ¹	+3.3	+19.1	+5.6	+6.7	+1.8
UBS Life Triton (A units)	+3.4	+19.0	+6.2	+7.2	+2.4
UBS Life Triton (B units)	+3.2	+18.1	+5.4	+6.4	+1.6
AREF/IPD UK QPFI All Balanced Fund Wtd Avg ²	+2.8	+16.6	+9.4	+8.6	+4.7

Triton Fund Modernisation – update

The daily dealing of redemptions in the UBS Life Triton feeder fund has been suspended since 19 December 2014 following receipt of a redemption request expected to be paid in July 2015. However the manager will not recommence daily dealing until January 2016 due to redemption receive in April 2015.

3.2 Aberdeen Asset Management

Aberdeen manages one equity fund on a segregated mandate and one bond fund.

Aberdeen Equity fund

Although an active mandate, the fund is held in 33.2% pooled funds and 66.8% segregated assets including cash. The investment manager is expected to outperform benchmark by 1.25% over rolling three year periods. The Fund closed at £104.4m. Over the past 12 months the fund has increased in value by 10.88%. UK equity component in the fund increased in value by 5.40% in the

The quarter's performance of the portfolio is detailed in the table below

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	7.5	7.1	0.3	Marginal out performance
Last 12 months	11.0	10.8	0.1	Marginal out performance
Last 3 years	10.9	11.0	-0.1	Under performance
Last 5 years	9.9	7.8	1.9	Out performance

The table below shows in detail the attribution from the various sectors the Aberdeen fund is invested in. UK Equities remains the main detractor for the Aberdeen equity fund.

	Market Value 31/12/2014		Asset Allocation				Market Value 31/03/2015	
	£'000	% of Fund	Purchases	Sales	Gain/ Loss	Income	£'000	% of Fund
UK Equities	51,769	53	2,740	2,098	2,223	619	54,634	52
North America	7,654	8		1,700	361	2	6,315	6
Continental Europe	13,723	14	1,430	670	1,607	94	16,091	15
Japan	9,122	9	8,001	8,971	1,026	33	9,178	9
Total Pacific (Ex. Japan)	5,970	6	350		514	32	6,834	7
Other Intl Equities	8,826	9	350		705	47	9,880	9
Cash/Alternatives	206	0	16,105	14,817	4	0	1,497	1
Total	97,269	100	28,976	28,256	6,440	843	104,430	100

	Portfolio		Benchmark Attributes		Attributes from Manager's Management of Stocks		Total %
	Weight %	Return %	Weight %	Return %	Asset Allocation Attributes %	Stock Selection Attributes %	
TOTAL	100.0	10.88	100	10.79	0.28	-0.19	0.09
UK	52.3	4.46	53.7	6.57	0.06	-1.18	-1.13
Overseas	46.2	19.04	46.3	16.06	0.30	0.99	1.29
North America	6.0	21.15	5.9	25.14	-0.16	-0.15	-0.30
Europe ex UK	15.4	9.87	15.0	7.69	0.04	0.34	0.38
Japan	8.8	38.84	7.9	26.04	0.17	0.90	1.07
Asia Pacific ex Japan	6.5	18.39	7.4	19.71	0.13	-0.10	0.03
Emerging Markets	9.5	13.61	10.0	13.19	0.12	-0.01	0.11
TOTAL CASH	1.4	0.24					
TOTAL	100		100		-0.08	0.00	-0.08

Aberdeen Bond Fund

The fund closed at £127.1m. March quarter saw the fund underperform its benchmark by 0.3%. The manager's objective is to outperform its benchmark by 0.60% on a three year rolling period. Assets invested in continue to be of high grade credit quality with the minimum credit limit for assets being Fitch AA. Members should note that in the current economic climate, investing in high the credit quality names may mean lower returns because of the price investors will pay for security of capital.

	Market Value 31/12/2014		Asset Allocation				Market Value 31/03/2015	
	£'000	% of Fund	Purchases	Sales	Gain/Loss	Income	£'000	% of Fund
UK Bonds	31,186	25	1,033	636	407	995	31,991	25
Overseas Bonds	29,428	24	1,352		571	598	31,351	25
UK Index-Linked	61,964	51	1,145	198	863	1,176	63,774	50
Cash/Alternatives	42	0	3,519	3,530	4		36	
Total	122,621	100	7,049	4,364	1,846	2,692	127,152	100

Period	Portfolio	Benchmark	Variance	Comments
March 2015 Qtr	3.7	3.4	0.3	Out performance
Year to date	17.9	18.2	-0.3	Underperformance
3 years	7.6	7.5	0.1	Marginal out performance. Manager not met benchmark
5 years	8.5	8.8	-0.3	Underperformance

3.3 BlackRock

The long term objective of the Fund is 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.

	Market Value 31/12/2014		Asset Allocation				Market Value 31/03/2015	
	£'000	% of Fund	Purchases	Sales	Gain/Loss	Income	£'000	% of Fund
Cash/Alternatives			68	69				
UK Property	5,977	100	69		85	50	6,131	100
Total	5,977	100	138	69	85	50	6,131	100

	Portfolio	Benchmark	Variance	Comments
March 2015	2.3	2.8	-0.5	Underperformance
Year to date	14.0	16.6	-2.3	Underperformance

- 4. OTHER ISSUES AFFECTING THE FUND**
 - 4.1 UBS Triton redemption and Fund outperformance.

- 5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**
 - 5.1 All relevant implications are included in the report.

- 6. LEGAL AND STATUTORY IMPLICATIONS**
 - 6.1 N/A

- 7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**
 - 7.1 N/A

- 8. Risk management and health and safety implications**
 - 8.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

- 9. BACKGROUND PAPERS**
 - All managers investors reports and State Street Analytics performance Report

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