

Committee: Pension Fund Advisory Committee

Date: 17 March 2015

Agenda item: 4

Wards: All

Subject: Performance for the Quarter Ending December 2014 and Position Statement

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Lead member: Councillor Imran Uddin

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Recommendations:

- a.) Note the content of this report;
- b.) Note the redemption issues faced by UBS Triton;
- c.) Note the contents of performance report prepared by AllenBridge Epic Appendix A to this report and issues raised; and
- d.) Consider the concerns raised by AllenBridge Epic regarding individual manager performance 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 December 2014. 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 December 2014 and provide a platform to discuss future actions for the Fund.
2. Fund Performance against its Local Authority Peers

2.1 In the WM universe of Local Authority Funds, the Merton Fund ranked 92nd in Equities, 13th in Bonds, 18th in UK Index-linked bonds while Property ranked 44th. Overall the total performance of the Fund of 1.5% over benchmark ranked 73rd.

2.2 Fund Asset Allocation and Performance

The table below shows the fund strategic asset allocation as at 31 December 2014 against the asset allocation of the Fund's benchmark. At the end of the period, 72.0% of total Fund assets invested in equity, 41.8% was actively managed and 58.2% was passively managed.

At 31/12/2014	Total Equity	Total Bonds	Cash/Alts	Property	Total Fund
	%	%	%	%	%
Fund Asset Allocation	72.3	24.5	0.2	3.0	100.0
Asset of Fund Benchmark	68.8	26.1	0.0	5.0	100.0

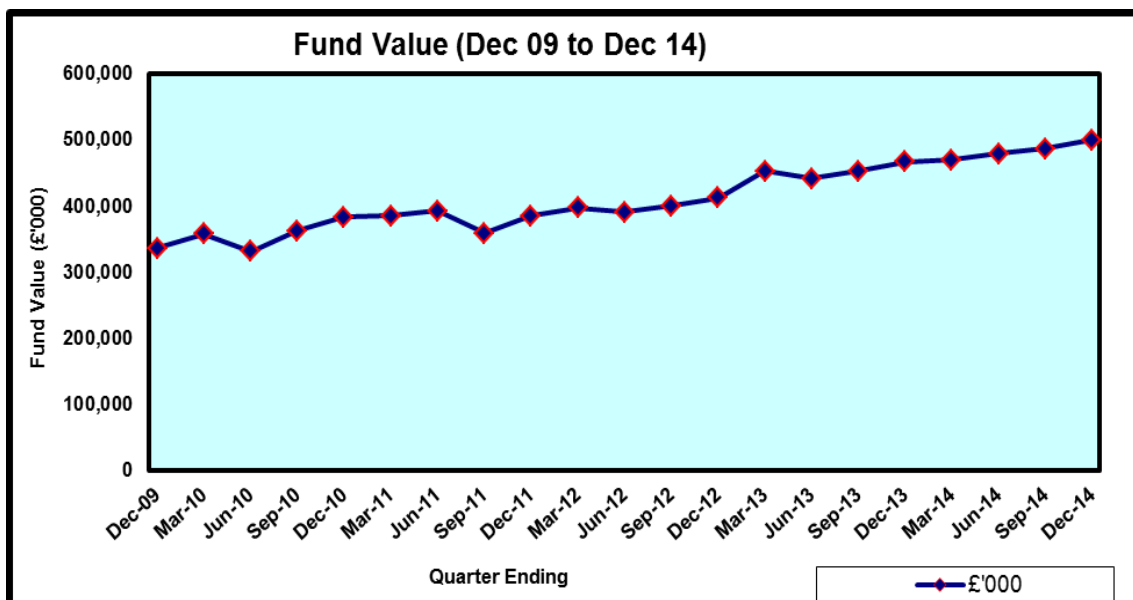
The Fund's underperformed by 0.3% against its benchmark at the end of the quarter. On a year to date basis the Fund also underperformed against its benchmark by 0.4%.

The table below summarises the capital movement and increase in market values reinvested in the quarter between the managed funds.

Fund	30/9/14 Values	Transactions	Capital Gain/loss	Income	31/12/14 Values	% of Total Fund
UBS Passive	207,771	544	3,892	532	212,206	42
Aberdeen Fixed Income	114,542	-87	8,165	0	122,621	25
Aberdeen Active Equity	96,291	247	732	422	97,269	19
UBS Active Equity	52,944	250	-609	242	52,584	11
UBS Property	8,972	333	284	102	9,588	2
BlackRock Property	5,779	46	152	50	5,977	1
RREEF **	226	-226	0	0	0	0
Total Fund	486,524	1,107	12,615	1,347	500,246	100

** residual investments in the RREEF fund amalgamated with BlackRock.

The Fund's investments increased in value by £13.7m from last quarter. The chart below shows Fund annual market values between December 2009 to December 2014.



The Fund's assets are invested in various sectors and geographical locations. During the quarter ending December 2014, UK equities in the fund underperformed while overseas equities outperformed benchmark. The table below shows 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	Closing Value Sept 2014	Closing Value Dec 2014	Fund Return Dec 2014 %	Benchmark %
UK Equities	211,142	215,102	0.1%	0.6%
Overseas Equities	144,758	146,596	3.5%	2.9%
• North America	51,031	52,741	8.3%	8.3%
• Continental Europe	35,505	38,523	-0.4%	-0.5%
• Total Far East	42,413	40,760	2.0%	1.5%
• Other Intl Equities	15,809	14,571	0.5%	-0.2%
UK Bonds	28,698	31,186	8.8%	9.0%
Overseas Bonds	28,063	29,428	2.9%	2.9%
UK Index-Linked	57,753	61,964	8.5%	9.4%
Cash Alternatives	1,515	874	-1.1%	
Property	14,595	15,096	4.0%	4.6%
Total	486,525	500,246	2.9%	3.2%

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 £52.6m (September 2014 52.9m).

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

	30/09/2014 Values		Purchases	Sales	Gain/Loss	Income	31/12/2014	
	£'000	%					£'000	£'000
Total Equities	52,417	99	4,131	3,685	-610	300	52,253	99%
Cash & Cash Alternatives	527	1	3,984	4,180	0	0	331	1%
Total	52,944	100	8,115	7,864	-609	242	52,584	100

Performance of the UBS Active Equity Fund over various time periods

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	2.1	2.1	0.0	In line with benchmark
Last 12 months	5.2	5.0	0.2	Out perform
Last 3 years	13.1	13.0	0.0	In line with benchmark but investment objective for 3 years not met.
Last 5 years	9.8	9.8	0.0	In line with benchmark

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 £212.2m (207.7m September 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 30/9/2014		Purchases	Sales	Gain/Loss	Income	Market Value 31/12/2014	
	£'000	%					£'000	£'000
UK Equities	113,438	55	5,842	2,544	90	558	116,825	55
North America	45,174	22		3,750	3,662		45,087	21
Continental Europe	24,423	12	500		-123		24,800	12
Japan	13,016	6			207		13,223	6
Total Pacific (ex Japan)	11,890	6	500		55		12,445	6

Cash & Alternatives	-171	0	13,494	13,498	0	1	-175	0
Total	207,771	100	20,336	19,792	3,892	532	212,206	100

This table shows the performance of the portfolio.

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	-0.7	0.5	-1.2	underperformance
Last 12 months	0.3	2.0	-1.7	underperformance
Last 3 years	10.6	11.1	-0.4	underperformance
Last 5 years	7.2	8.2	-0.9	underperformance

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 December 2014 was £128.2m.

UBS Property Fund

The UBS Property fund closed at a total market value of £9.6m. The fund underperformed against benchmark by +0.3%.

The three tables below show that the UBS Triton managers performance comprising of capital and income, that the returns of 4.2% can be attributed to underperformance in each of the two sub funds.

	Market Value 30/9/2014		Asset Allocation				Market Value 31/12/2014	
	£'000	% of Fund	Purchases	Sales	Gain/Loss	Income	£'000	% of Fund
Property	8,816	98%	19		284	102	9,119	95%
Cash& Money Mkt Instruments	156	2%	333	19			469	5%
Total	8,972	100%	352	19	284	102	9,588	100%

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	4.2	4.6	-0.3	Under performance
Last 12 months	19.1	17.2	1.7	Out performance
Last 3 years	5.2	8.6	-3.2	Under performance

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

	Q4 2014 %	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
UBS Triton Property Fund (gross)	+4.4	+19.5	+5.2	+7.5	+2.4
UBS Triton Property Fund (net) ¹	+4.3	+19.0	+4.6	+6.8	+1.7
UBS Life Triton (A units)	+4.3	+18.9	+5.2	+7.3	+2.3
UBS Life Triton (B units)	+4.1	+18.0	+4.4	+6.5	+1.5
AREF/IPD UK QPFI All Balanced Fund Wtd Avg ²	+4.6	+17.2	+8.6	+9.0	+4.8

Includes the effect of the management fee rebate being paid to continuing investors from 1 July 2013 onwards.

Triton Fund Modernisation – update

Redemptions were expected to resume in early December, however on 19 December 2014, the daily dealing of redemptions from UBS Life Triton was again suspended following a redemption request of GBP 3.2 million. The manager does not have sufficient cash within the Life Fund to meet daily dealing requirements, the daily dealing of redemptions in UBS Life Triton was therefore suspended again .

The earliest we would expect daily dealing of redemptions in UBS Life Triton to resume is early April 2015 and the latest is early July 2015, however, the manager assumes this is subject to no further redemption requests being received in the interim.

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 £97.3m.

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

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	1.2	1.0	0.2	Out performed
Last 12 months	3.2	3.1	0.0	In line with benchmark
Last 3 years	10.9	11.1	-0.2	Underperformance
Last 5 years	10.0	7.9	2.0	Outperformed

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 30/9/2014		Asset Allocation				Market Value 31/12/2014	
	£'000	% of Fund	Purchases	Sales	Gain/ Loss	Income	£'000	% of Fund
UK Equities	50,860	53	3,627	2,553	-165	264	51,769	53
North America	5,856	6	1,260		538	2	7,654	8
Continental Europe	11,082	12	2,975	261	-73	13	13,723	14
Japan	8,588	9			534	17	9,122	9
Total Pacific (Ex. Japan)	8,920	9		2,969	20	39	5,970	6
Other Intl Equities	10,236	11		1,300	-111	49	8,826	9
Cash/Alternatives	749	1	9,269	9,802	-11	0	206	0
Total	96,291	100	17,132	16,885	732	422	97,269	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	-0.68	100	0.05	0.00	-0.74	-0.73
UK	53.2	-1.69	54.8	1.18	0.02	-1.60	-1.57
Overseas	46.6	9.24	45.2	5.51	0.24	1.36	1.60
North America	7.9	14.97	6.4	19.59	-0.11	-0.16	-0.27
Europe ex UK	14.1	0.51	14.3	0.04	-0.00	0.10	0.10
Japan	9.4	19.46	7.3	2.68	0.07	1.28	1.36
Asia Pacific ex Japan	6.1	10.29	7.4	9.51	0.15	0.05	0.20
Emerging Markets	9.1	5.90	9.8	4.29	0.13	0.09	0.22
TOTAL CASH	0.2	-0.66			0.00	0.00	0.00
TOTAL	100		100		-0.05	0.00	-0.05

Aberdeen Bond Fund

The fund closed at £122.6m. December quarter saw the fund underperform its benchmark by 0.5%. 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 the investors will pay for security.

	Market Value 30/9/2014		Asset Allocation				Market Value 31/12/2014	
	£'000	% of Fund	Purchases	Sales	Gain/ Loss	Income	£'000	% of Fund

UK Bonds	28,698	25	117	128	2,500	26	31,186	25
Overseas Bonds	28,063	25	539		826	15	29,428	24
UK Index-Linked	57,753	50		635	4,847	32	61,964	51
Cash/Alternatives	28	0	677	656	-7		42	0
Total	114,542	100	1,333	1,420	8,165	0	122,621	100

Period	Portfolio	Benchmark	Variance	Comments
Dec 2014 Qtr	7.1%	7.7%	-0.5%	Underperformance
Year to date	17.3%	17.8%	-0.5%	Underperformance
3 years	5.7%	5.6%	0.1%	outperform but manager has not met Fund target
5 years	8.5%	8.8%	-0.3%	Underperformance Fund target not met

3.3 RREEF

All companies have now been liquidated and a final cash distribution will be made to investors.

3.4 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.

	Portfolio	Benchmark	Variance	Comments
Dec 2014	3.5%	4.6%	-1.0%	underperformance
Year to date	14.9%	17.2%	-2.0%	In line with benchmark

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 All relevant implications are included in the report.

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 StateStreet Analytics performance Report

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