

# **London Borough of Brent Performance Review**

**Period Ending 31<sup>st</sup> March 2014**

**Tuesday 30th September 2014**

**Lynn Coventry**

# Agenda

## Section 1 – Local Authority Market Environment

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## Section 2 – Fund Structure and Benchmarks

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## Section 3 – Fund Performance Relative to Benchmark

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## Section 4 – Fund Performance versus Local Authority Universe

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## Appendix

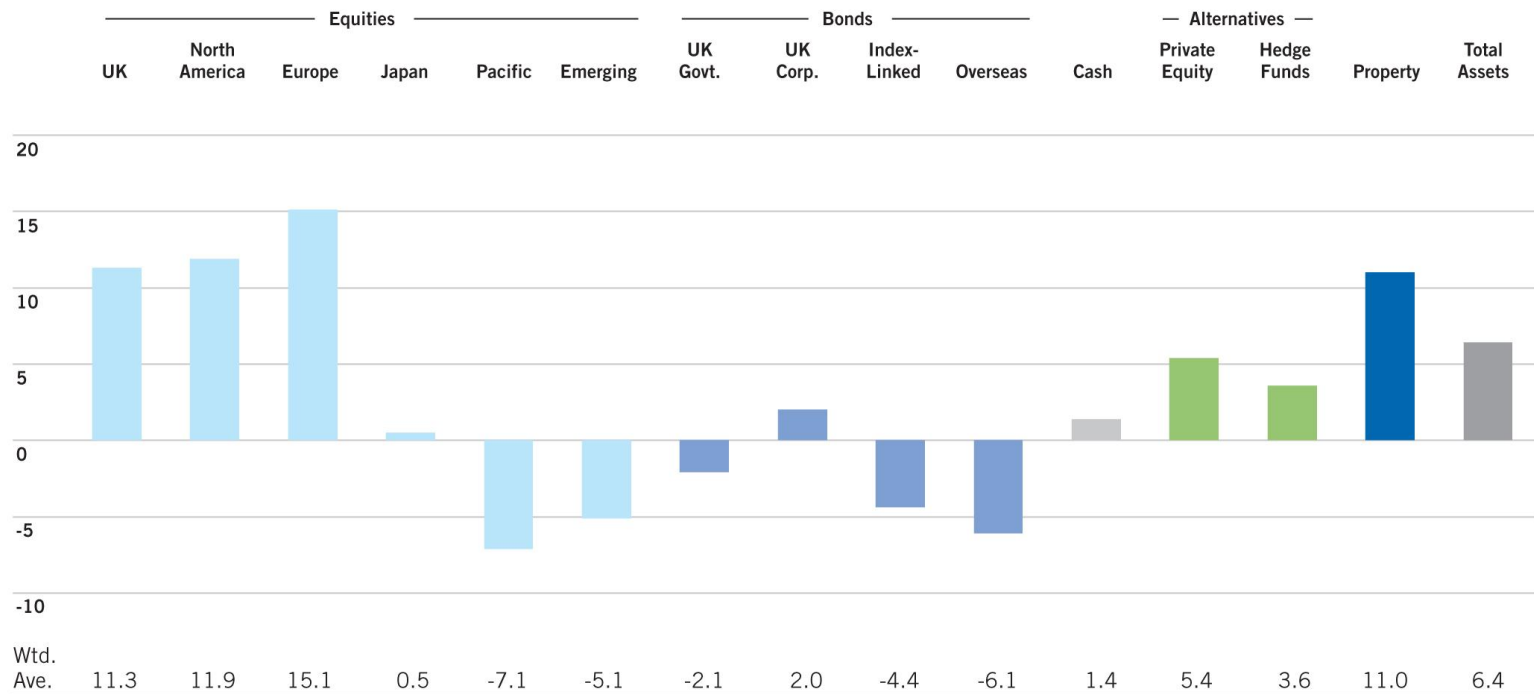
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## Section 1

### Local Authority Results to end March 2014

## 2013/2014 Returns (%)



Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

## Annual Returns (%)\*



\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

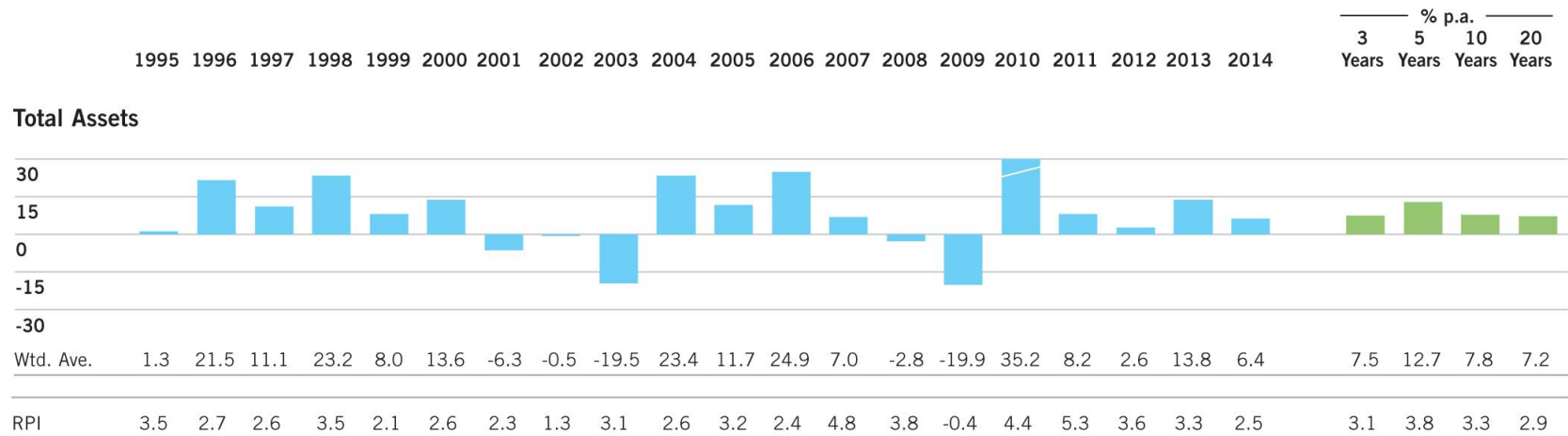
## Annual Returns (%)\*



\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

## Annual Returns (%)\*



\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

## Local Authority Universe - Asset Class Performance\*

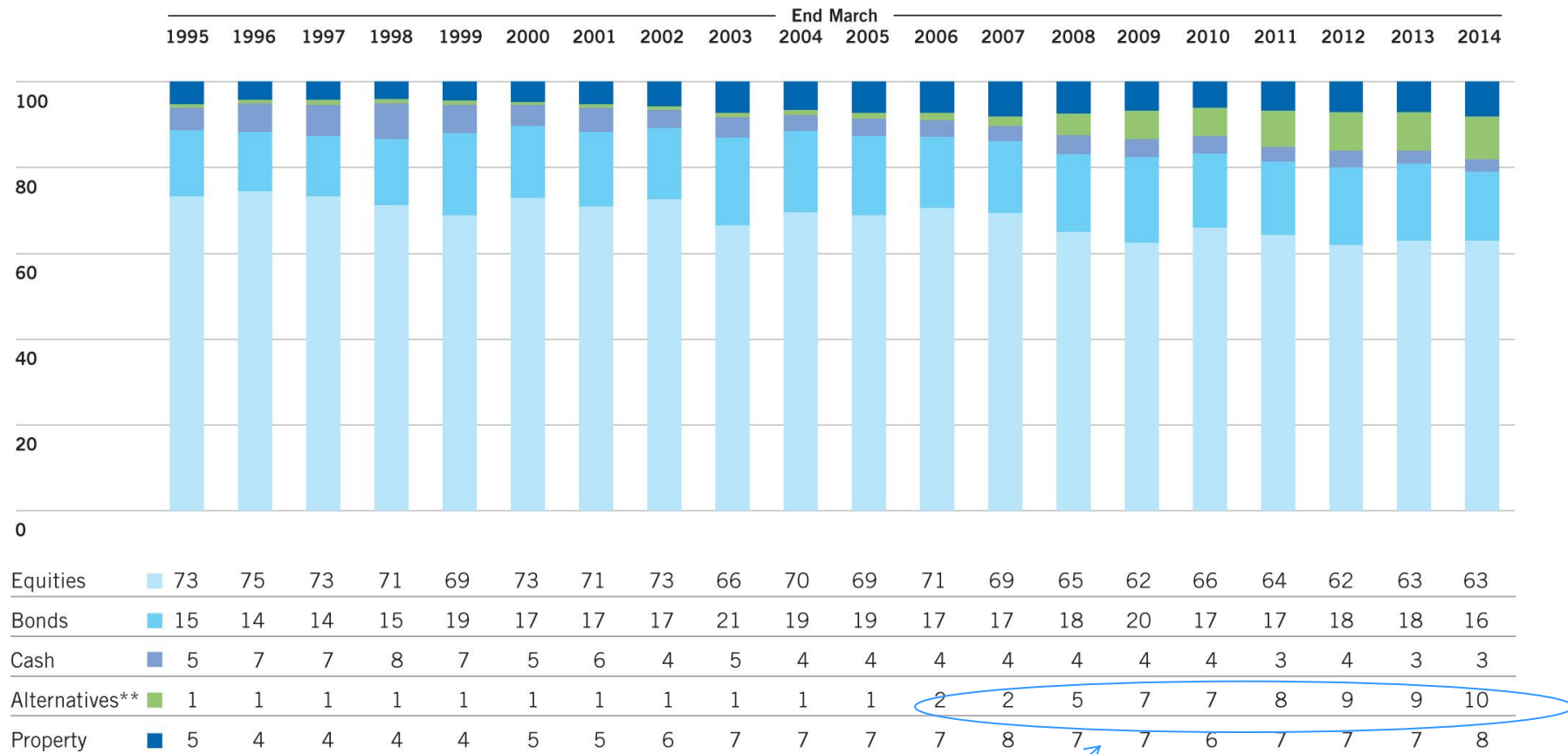
	% of Asset Class		% p.a. Return			
	At end 2012/13	At end 2013/14	3 Yrs	5 Yrs	10 Yrs	20 Yrs
<b>Equities</b>	<b>100</b>	<b>100</b>				
UK Equities	38.8	38.2	10.3	17.5	8.9	7.9
Overseas Equities	52.8	52.9	6.9	14.8	9.1	6.9
North America	18.5	18.5	12.1	17.2	8.0	8.1
Continental Europe	12.8	13.6	7.9	15.0	9.8	8.8
Japan	5.4	4.9	5.5	9.3	3.7	1.0
Pacific ex Japan	5.7	5.1	2.3	14.9	12.6	7.0
Emerging Markets	9.1	9.2	-1.2	12.6	11.5	-
Global	8.4	8.9	8.1	14.8	-	-
<b>Bonds</b>	<b>100</b>	<b>100</b>				
UK	58.5	57.4	7.3	8.8	5.9	7.2
Index-Linked	23.1	22.3	8.4	8.6	6.9	7.3
Overseas Bonds	12.9	15.2	3.5	5.3	5.1	5.2
Pooled	5.5	5.0	5.0	9.2	-	-
<b>Alternatives</b>	<b>100</b>	<b>100</b>				
Private Equity	55.5	55.5	7.5	6.0	-	-
Hedge Funds	30.5	29.2	3.6	5.6	-	-
Other Alternatives	13.9	15.4	0.9	3.7	-	-

\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.



## Longer Term Asset Allocation (%)\*



\* Source: State Street Investment Analytics, 2014.

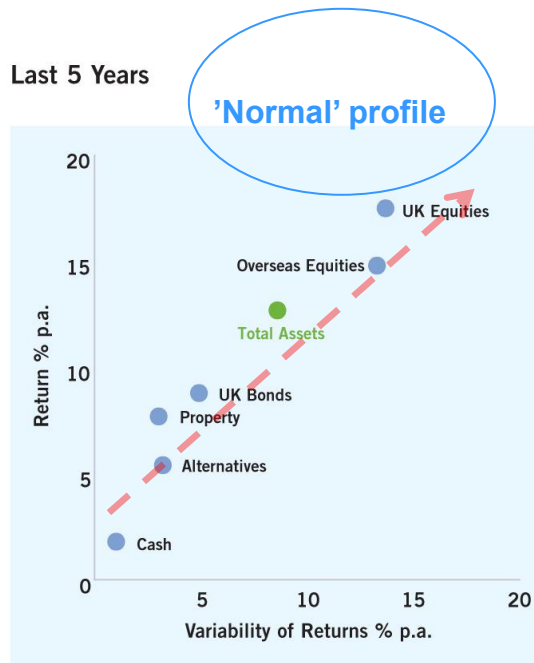
\*\* Includes Pooled Multi-Asset from March 2010.

Past performance is not a reliable indicator of future results.

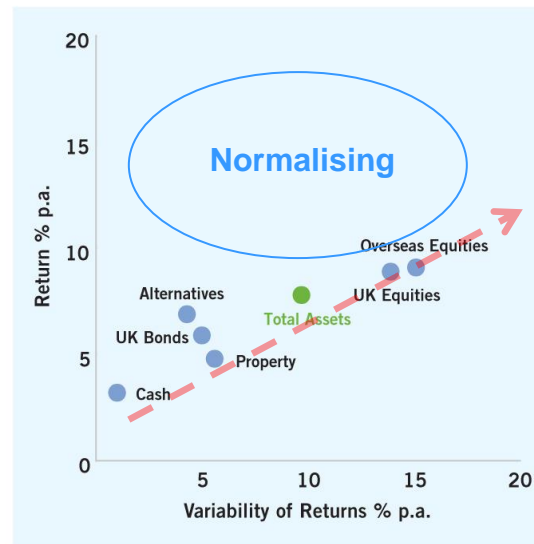
Recent growth

## Long Term Risk and Return\*

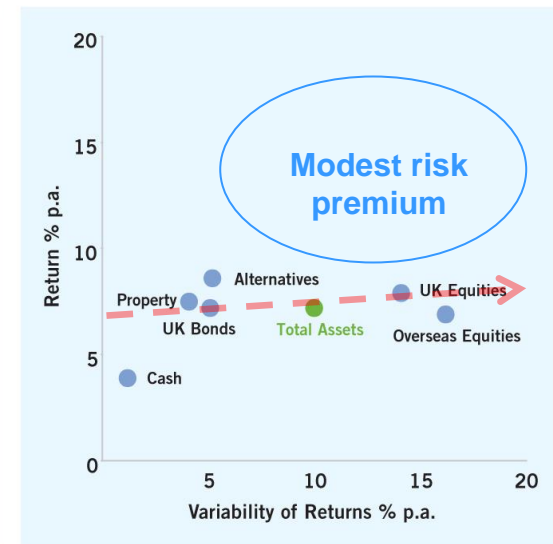
Last 5 Years



Last 10 Years



Last 20 Years



\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

## Section 2

### Fund Structure and Benchmarks

## Fund Structure & Benchmarks

	Benchmark	Target
<b>51% Total Equities</b>		
15% L&G	FTSE All Share Index	Match Index
4% Henderson Gartmore Fund	FTSE Small Cap ex IC TR Index	Plus 2% p.a. over rolling 3 years
24% L&G	FTSE AW Dev World ex UK	Match Index
8% Dimensional	MSCI Emerging Markets NDR	Plus 3% p.a. over rolling 3 years
<b>15% Fixed Interest</b>		
15% Henderson	Absolute Return 6% p.a.	
<b>8% Property</b>		
8% Aviva	AREF/IPD UK Quarterly All Property Index	
<b>24% Alternatives</b>		
10% Private Equity	Absolute return of 8% p.a.	
6% Alinda Infrastructure	Absolute return of 8% p.a.	
8% Baillie Gifford DGF	Bank of England Base Rate + 3.5% p.a.	
<b>2% Cash</b>		
Internal	Bank of England Base Rate	

- The Fund Benchmark strategy drives the return in order to meet the Fund objective.
- The Fund is relatively small but relatively complex.

# Fund Summary

## Fund Value

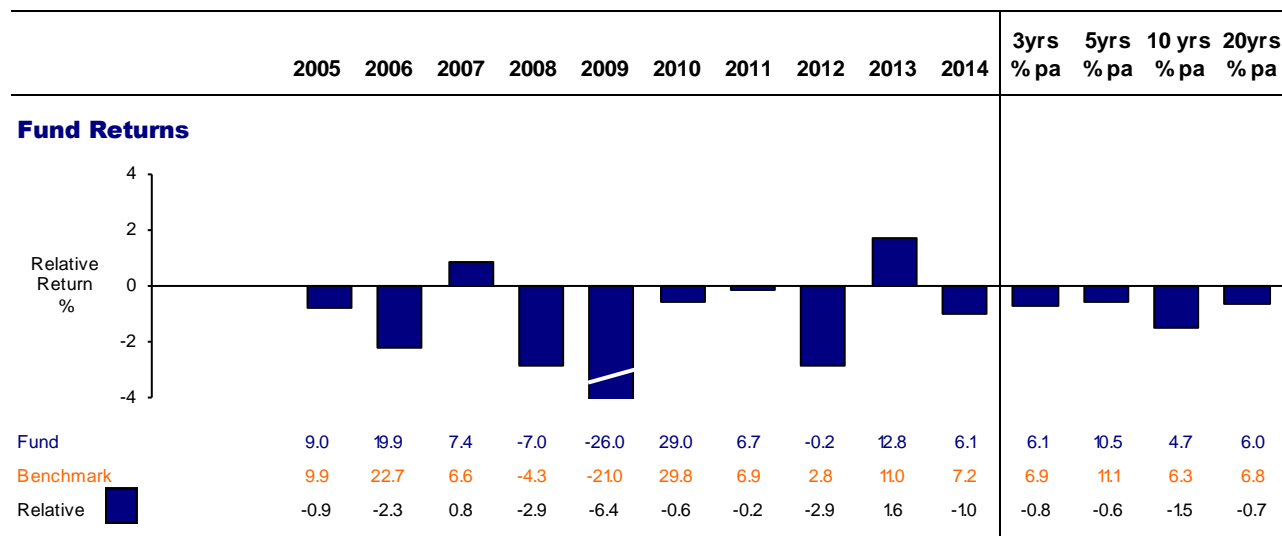
Values (GBP)'00 Mandate		Value at 29/03/2013	Transactions	Capital Gain / loss	Income	Value at 31/03/2014	% Fund
L & G	Eq Gbl x UK	124,893	-171	11,195	0	135,917	23
CAP DYNAMICS	Private Eq/Infra	82,420	4,372	5,517	148	92,308	16
L & G	Eq UK	78,167	0	7,007	0	85,174	15
HENDERSON	Bd GBP	82,898	2,018	-858	2,018	84,058	14
BAILLIE GIFF	Structured	33,953	10,000	912	0	44,865	8
DIMENSIONAL	Eq Emer Mkt	36,946	5,000	-4,005	0	37,941	6
AVIVA	Prop Gbl	33,320	0	1,704	1,245	35,024	6
HEND/GART	Eq UK	21,420	0	5,610	0	27,030	5
ALINDA	Infra	16,651	5,208	-195	299	21,664	4
INT MGD PE	Private Eq	6,685	12,743	70	0	19,498	3
HENDERSON	Infra	925	0	404	0	1,329	0
FAUCHIER	Absolute	27,247	-29,404	2,157	123	0	0
Total Fund		545,524	9,766	29,518	3,833	584,808	100

← Fauchier closed.

## Section 3

### Fund Performance Relative to Benchmark

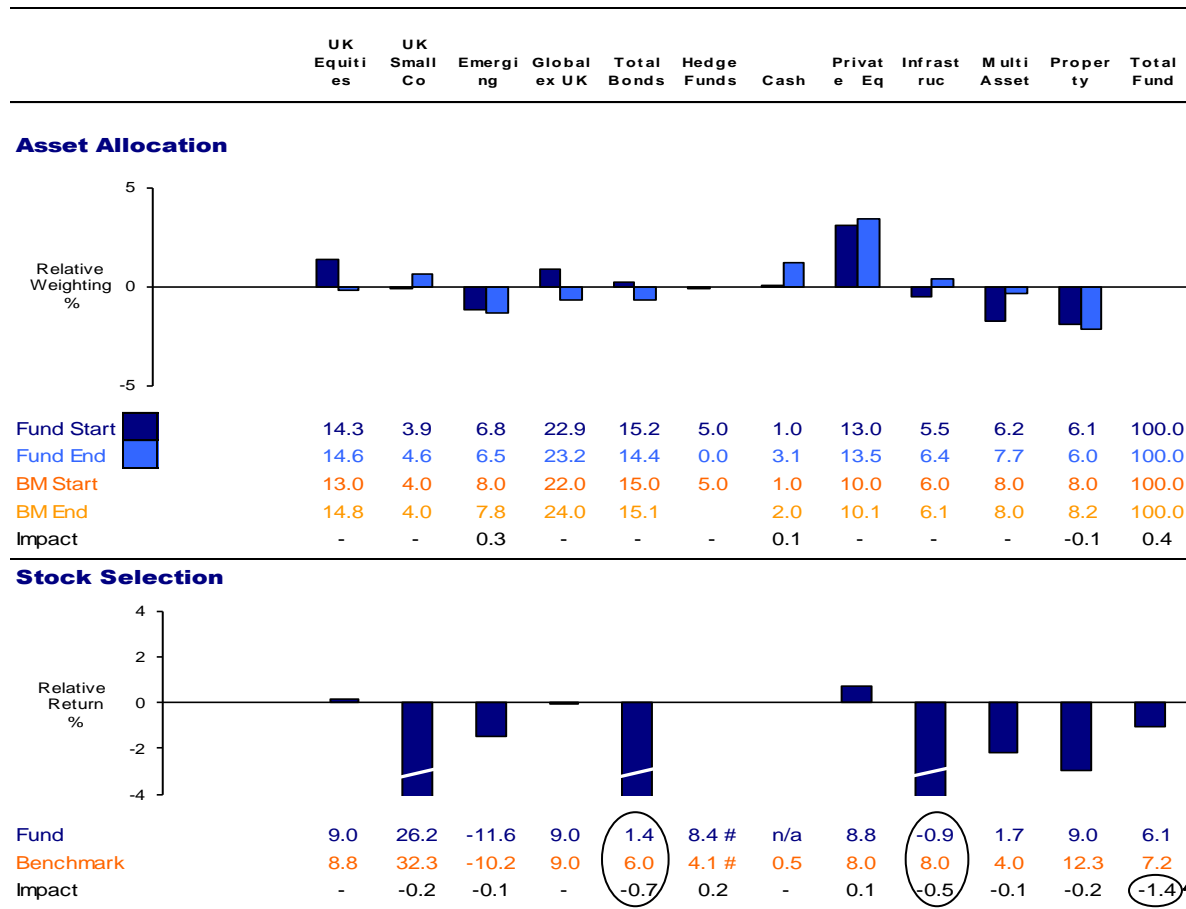
## Total Fund Performance Relative to Benchmark



- In 2014 the Fund return of 6.1% was below the benchmark return of 7.2%.
- Over the last decade years there have only been 2 years of above benchmark performance.
- Active management has had a large negative impact e.g. Alliance Bernstein.
- Relative short term investments in some Alternatives e.g. Active Currency, GTAA, Hedge Funds has proved unfavourable.
- The cost of change has impacted performance.

# Attribution – Latest Year

- The Fund is 1.0% behind the benchmark over the latest year.

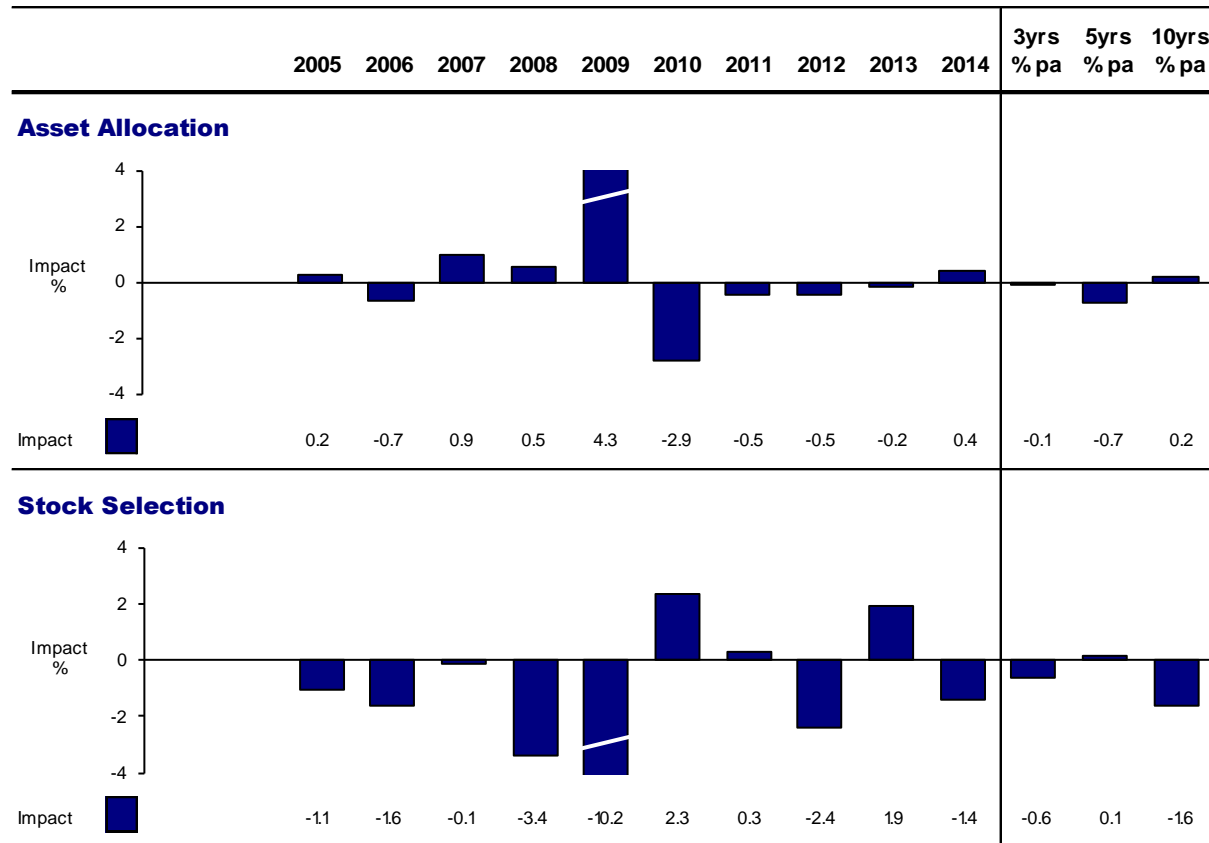




## Manager Performance – Latest Year

Managers	Mandate	Benchmark	Start Value %	End Value %	Fund Return %	Benchmark Return %	Relative Return %
L&G	Global ex UK	FTSE AW Dev. Ex UK	22.9	23.2	9.0	9.0	0.0
L&G	UK Equity	FTSE All Share TR	14.3	14.6	9.0	8.8	0.1
Henderson Gartmore	UK Small Cap	FTSE Small Cap ex IC TR Index	3.9	4.6	26.2	32.3	-4.6
Dimensional	Emerging Market Equity	MSCI Emerging Markets NDR	6.8	6.5	-11.6	-10.2	-1.5
Henderson	Fixed Interest	Absolute Return 6% p.a.	15.2	14.4	1.4	6.0	-4.3
Capital Dynamics	Private Equity	Absolute Return 8% p.a.	12.8	13.3	8.8	8.0	0.8
Capital Dynamics	Infrastructure	Absolute Return 8% p.a.	2.3	2.5	-4.1	8.0	-11.2
Alinda	Infrastructure	Absolute Return 8% p.a.	3.1	3.7	-1.4	8.0	-8.7
Henderson	Infrastructure	Absolute Return 8% p.a.	0.2	0.2	43.7	8.0	33.0
Aviva	Property	AREF/IPD UK Quarterly All Property Index	6.1	6.0	9.0	11.9	-2.6
Baillie Gifford	Pooled Multi Asset	Bank of England Base Rate +3.5%	6.2	7.7	1.5	4.0	-2.4
Internal	Cash/Private Equity	Bank of England Base Rate	1.2	3.3	n/a	n/a	n/a
Fauchier	Hedge Fund	3 Month LIBOR +5% p.a.	5.0	0.0	n/a	n/a	n/a
Combined		Customised Benchmark	100.0	100.0	6.1	7.2	-1.0

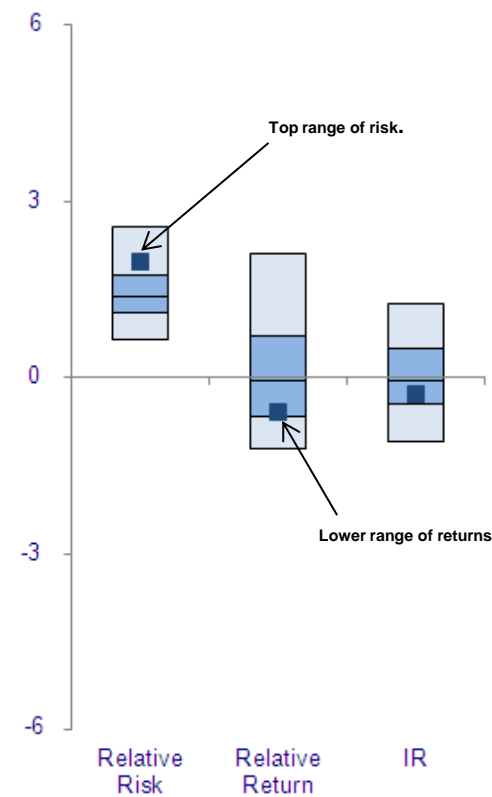
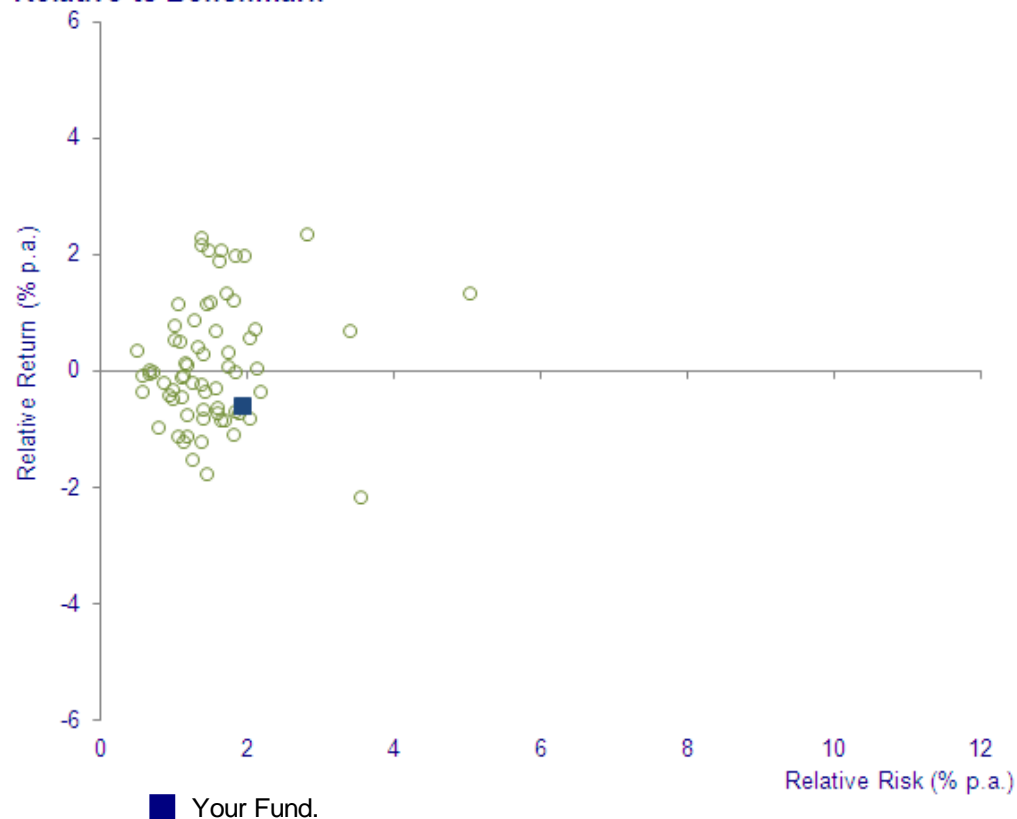
# Long Term Attribution



- Below benchmark returns in Global Equities (Alliance Bernstein) has been unfavourable.
- The underperformance over the last 3 years was due mainly to below benchmark returns in Emerging Markets, Hedge Funds, Infrastructure and Property.

## Relative Risk and Return – 5 Years % p.a.

Relative to Benchmark

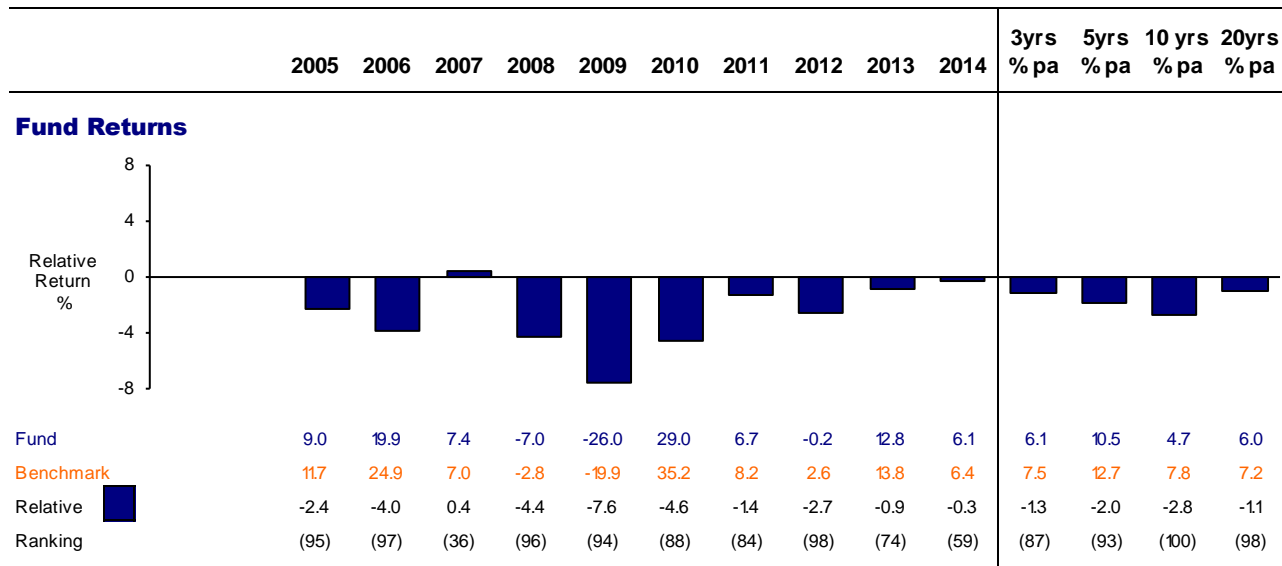


- The Fund's higher relative risk has not been rewarded in relative return.
- Relative high risk resulting from a large proportion of Alternatives benchmarked against absolute return, which has low volatility.

## Section 4

### Fund Analysis Relative to Local Authority Universe

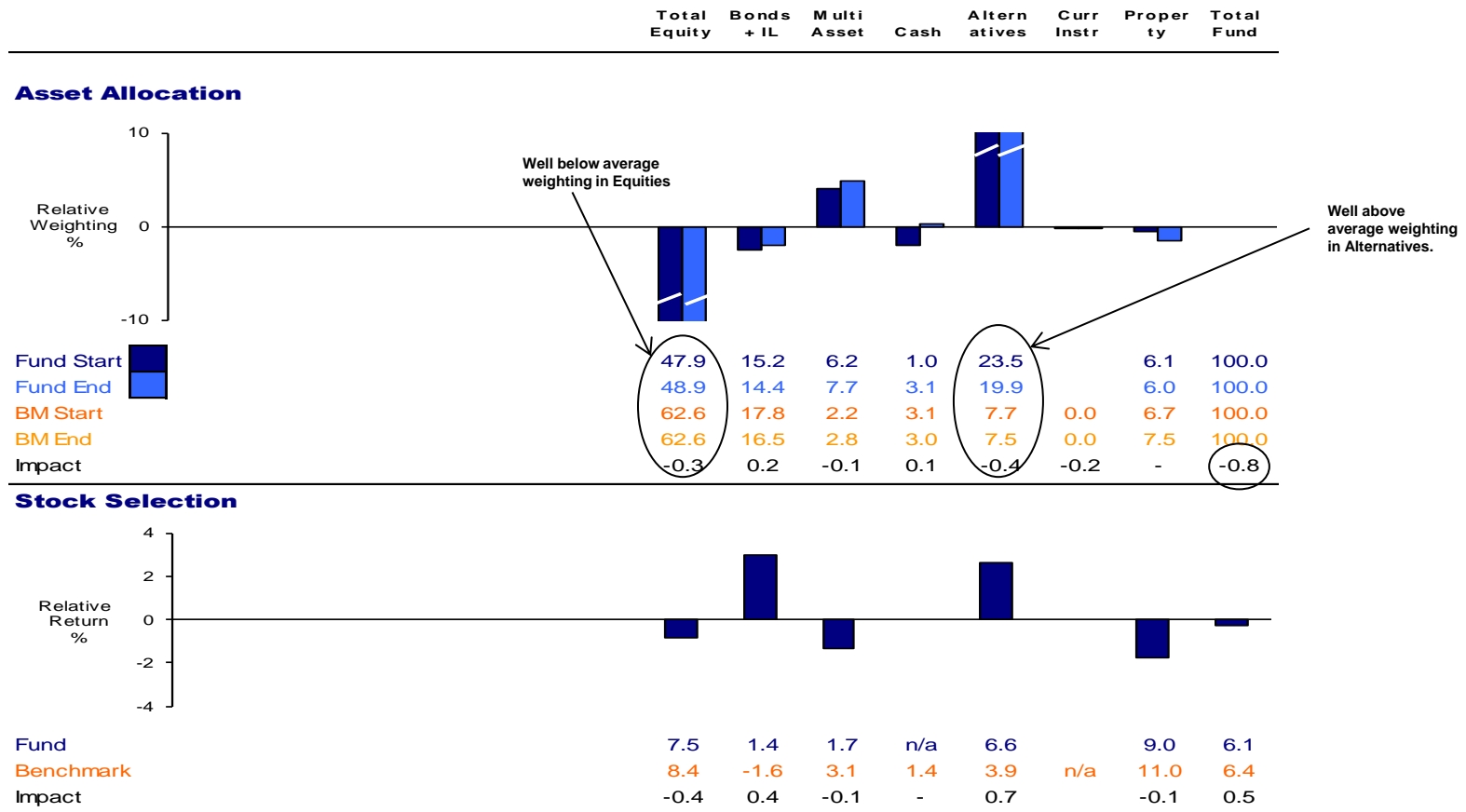
## Total Fund Performance vs. Local Authority Universe



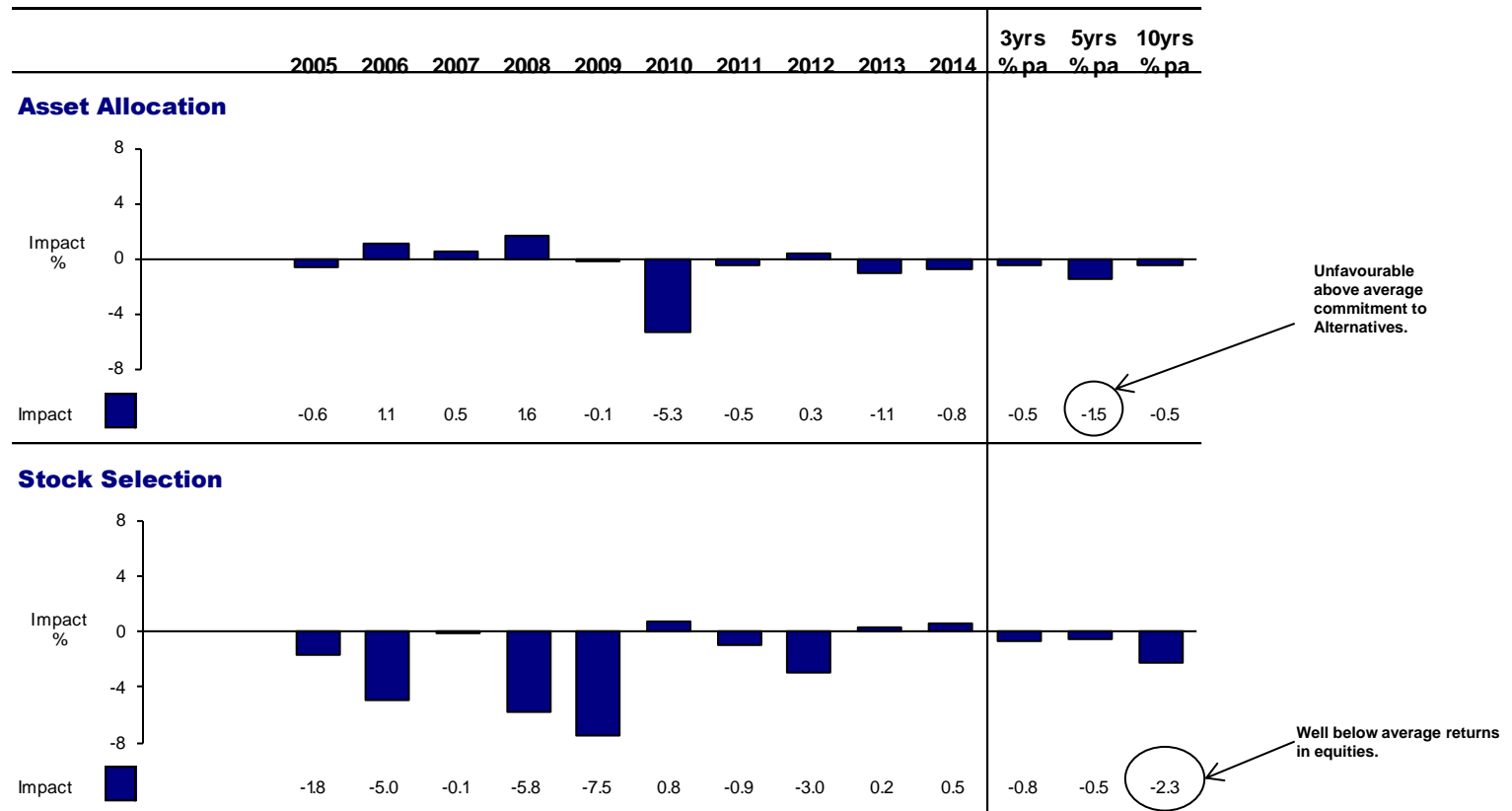
- Over the 10 year period the Fund is the worst performing Fund within the Local Authority Universe. There has only been one year over this period where the Fund has achieved an above average return.

## Latest Year Attribution

- The Fund was 0.3% below the Local Authority Average.

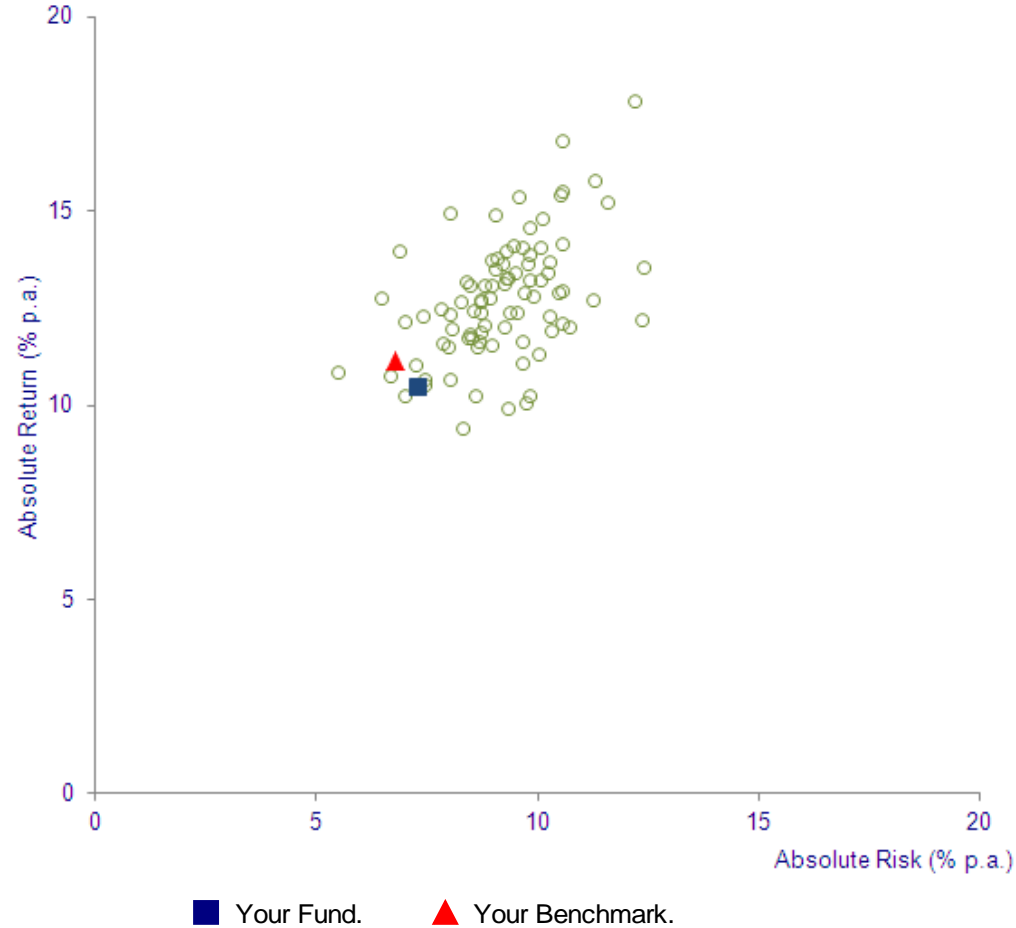


# Long Term Attribution



## Risk Adjusted Return Analysis – 5 Years % p.a.

Absolute Risk & Return



- The Fund risk is much lower than the majority of Funds within the universe however the Fund return is commensurately low.



## Summary

- During the latest year the Fund return of 6.1% was below both the benchmark and the Local Authority average return.
- Longer term the Fund continues to perform below the benchmark and is one of the worst performing Funds within the universe.
- The structure is complex and has been frequently changed, locking in costs from underperformance.
- Over the recent five year period, the Fund's risk is much lower than other local authority funds within the universe. During a period where risk asset were rewarded, this strategy wasn't successful, with the fund return ranking within the lower decile of returns within the universe.
- Over the last 20 years the Fund has achieved an absolute return of 6.0% per annum, which was well below the benchmark return of 6.8% per annum and the Local Authority average return of 7.2% per annum.

# Appendix

## Summary of Long Term Returns and Rankings

Return %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	3yrs % pa	5yrs % pa	10yrs % pa
<i>Total Equity</i>	9.4 (100)	25.9 (97)	6.9 (67)	-8.3 (91)	-31.7 (98)	52.1 (24)	7.9 (76)	-2.6 (97)	17.1 (65)	7.5 (70)	7.0 (88)	15.0 (77)	6.4 (100)
<i>UK Equities</i>	16.5	28.9	11.0	-7.6	-29.0	54.3	9.4	1.0	17.5	9.0	8.9	16.9	9.1
<i>O/S Equities</i>	3.3 (98)	23.5 (100)	0.5 (90)	-8.0 (97)	-31.0 (100)	48.7 (48)	4.8 (98)	-4.1 (86)	15.8 (84)	4.3 (73)	5.0 (86)	12.5 (93)	3.9 (100)
<i>Total Bonds</i>	5.6 (54)	8.3 (32)	1.0 (15)	-0.3 (83)	6.0 (27)	11.2 (76)	5.5 (56)	11.2 (53)	8.9 (66)	1.4 (17)	7.1 (54)	7.6 (65)	5.8 (54)
<i>Multi Asset</i>									10.9 #	1.7 (52)			
<i>Alternatives</i>	-0.6 (78)	10.1 (60)	8.6 (39)	-9.7 (86)	-19.2 (71)	4.3 (51)	6.5 (53)	-0.8 (78)	13.5 (11)	6.6 (37)	6.3 (32)	5.9 (43)	1.5 (82)
<i>UK Property</i>	19.7 (20)	17.5 (90)	16.6 (50)	-8.2 (20)	-30.5 (54)	6.7 (76)	12.5 (6)	6.0 (33)	2.1 (41)	11.8 (56)	6.5 (41)	7.7 (42)	4.3 (53)
<i>O/S Property</i>			0.8 #	21.5	8.5 (40)	-32.6 (90)	4.5 (50)	-9.6 (100)	-8.3 (94)	-5.0 (36)	-7.6 (80)	-11.1 (87)	
<i>Total Assets</i>	9.0 (95)	19.9 (97)	7.4 (36)	-7.0 (96)	-26.0 (94)	29.0 (88)	6.7 (84)	-0.2 (98)	12.8 (74)	6.1 (59)	6.1 (87)	10.5 (93)	4.7 (100)

# not invested in this area for the entire period