

# London Borough of Tower Hamlets Performance Review

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

17<sup>th</sup> September 2014  
Lynn Coventry

## Agenda

Section 1 – Market Environment

---

Section 2 – Total Fund Performance versus Strategic Benchmark

---

Section 3 – Manager Performance

---

Section 4 – Total Fund Performance versus Peer Group

---

Appendix

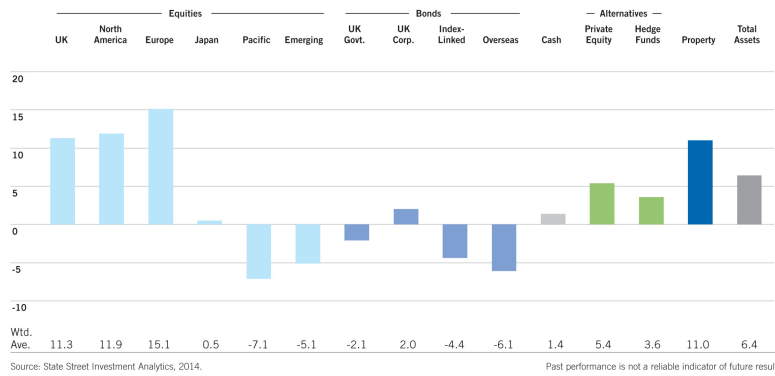
---

This document has been produced for general information only and solely for client use and it may not be copied, reproduced, distributed, published, transmitted, stored in a retrieval system or relied upon by any other person without WM's prior written consent. Except as and where expressly mandated, no representation is given in respect of the information in this document and the reporting sent herewith and no responsibility is accepted by State Street Corporation and its affiliates (including WM and the State Street Investment Analytics division) for any losses or actions or omissions taken by any party in reliance of the same and the results obtained from its use. All statistics quoted are sourced by the State Street Investment Analytics division unless otherwise stated. All rights reserved.

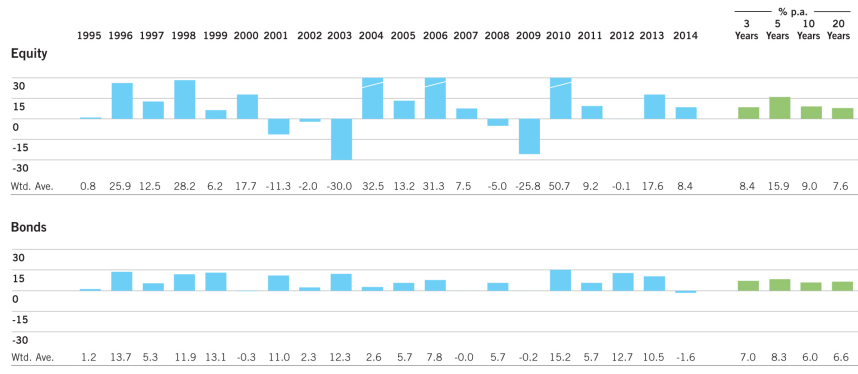
## Section 1

### Market Environment

### 2013/2014 Returns (%)



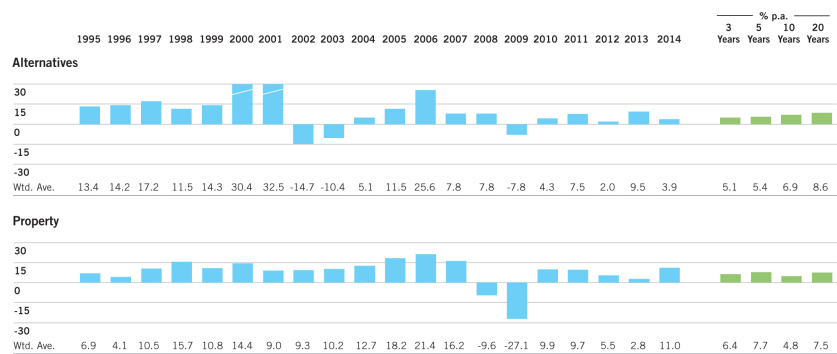
### Annual Returns (%)\*



\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

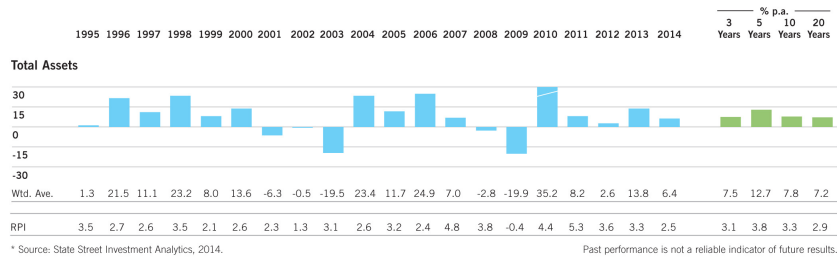
### Annual Returns (%)\*



\* Source: State Street Investment Analytics, 2014.

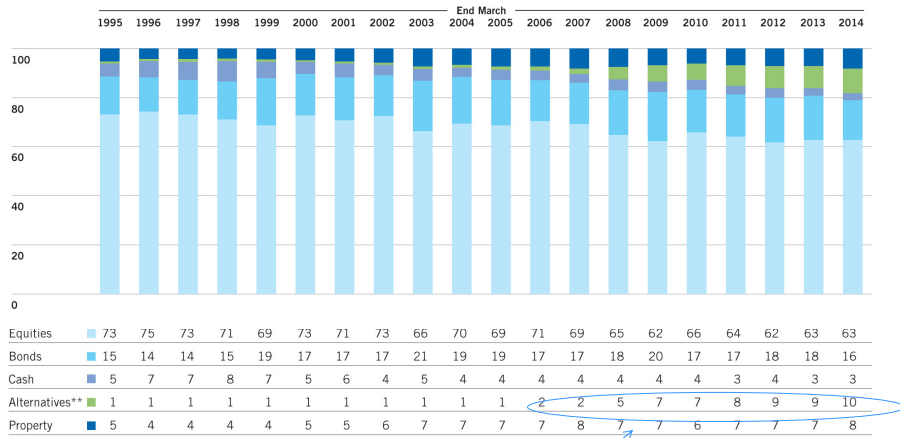
Past performance is not a reliable indicator of future results.

### Annual Returns (%)\*



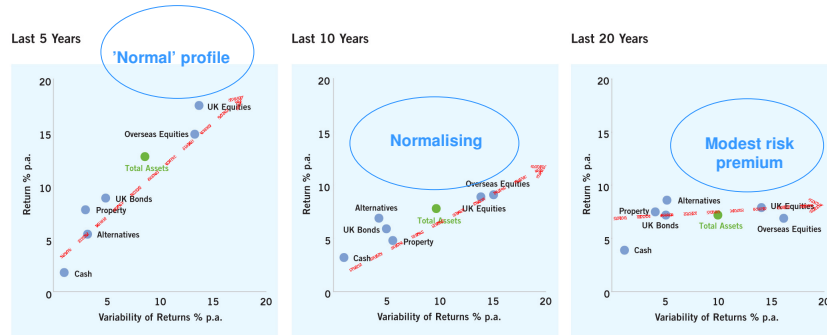
LIMITED ACCESS

### Longer Term Asset Allocation (%)\*



LIMITED ACCESS

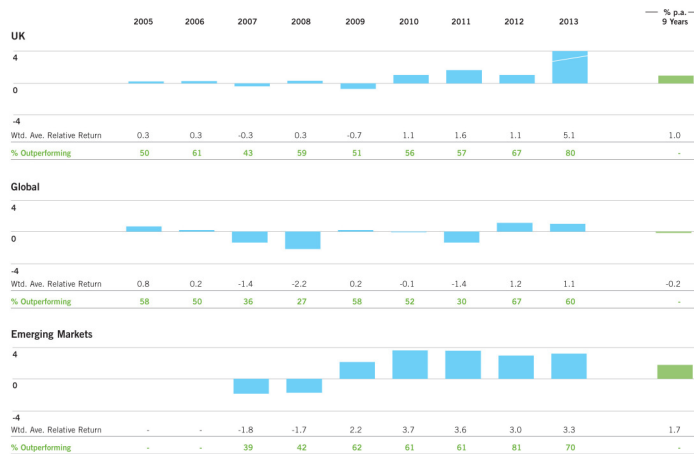
### Long Term Risk and Return\*



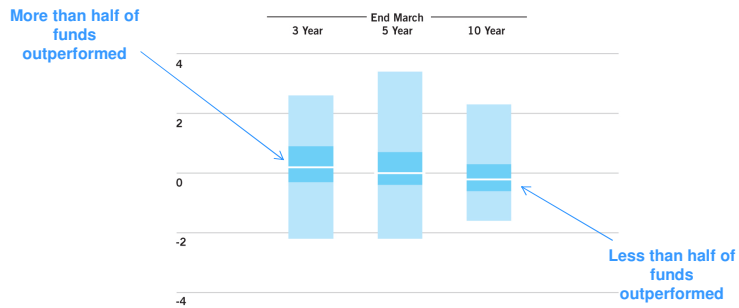
\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

### Active Equity Managers Have Had a Relatively Strong Run



## Performance Relative to Benchmark\*



\* Source: State Street Investment Analytics, 2014.  
Past performance is not a reliable indicator of future results.

## Section 2

### Total Fund Performance versus Strategic Benchmark

## Fund Structure &amp; Benchmarks

	L&G	GMO	Baillie Gifford	Benchmark Indices
Global Equities			100.0	MSCI AC World GDR
UK Equities	100.0	10.0		FTSE All Share
Overseas Equities		90.0		
North America		30.0		FTSE AW North America
Europe		30.0		FTSE AW Dev Europe ex UK
Japan		17.0		FTSE AW Japan
Pacific ex Japan		8.5		FTSE AW Dev Asia
Emerging Markets		4.5		Pacific ex Japan ex S. Korea
UK Gilts				MSCI EM
Overseas Bonds				
UK Index Linked				
Cash				
Property	20.0	25.0	16.0	

	L&G	Investec	Schroders	Baillie Gifford	Ruffer	Total Combined	Benchmark Indices
Global Equities						18.0	MSCI AC World GDR
UK Equities						22.5	FTSE All Share
North America						7.4	FTSE AW North America
Europe						7.4	FTSE AW Europe ex UK
Japan						4.3	FTSE AW Japan
Pacific ex Japan						2.4	FTSE AW Dev Asia
Emerging Markets						1.0	Pacific ex Japan ex S. Korea
Pooled Bonds		100.0				14.0	MSCI EM
UK Index Linked	100.0					3.0	LBOR 3 Month + 2%
Cash							FTSE A Gov Index-Linked >3 yrs
Property			100.0			12.00	HSBC/FP Pooled All
Diversified Growth				100.0	100.0	10.0	Balanced Funds Average
	3.0	14.0	12.0	5.0	5.0	100.0	50% Base Rate +3.5% 50% 3 Month LBOR +2%

## Targets

GMO: +1.5% p.a. net of fees over a rolling 3 year period.

Baillie Gifford Global Equity: + 2- 3% p.a. gross of fees over a rolling 3 year period.

Schroders: +0.75% p.a. net of fees over a rolling 3 year period.

Baillie Gifford Diversified Growth: 3.5% p.a. above the UK Base Rate (after fees).

Investec: 3 Month LBOR +2% p.a.

Ruffer: Overall objective is firstly to preserve the capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable UK bank.

LIMITED ACCESS

13

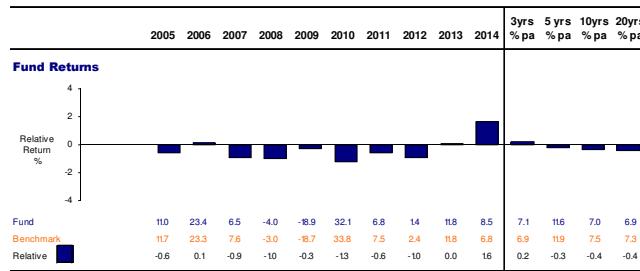
## Total Fund Value Summary

Fund Value		Value at	Capital	Value at	%		
Values (GBP)'00 Mandate		29/03/2013	Gain / loss	31/03/2014	Fund		
		Transaction:	Income				
GMO	Eq Gbl	226,306	6,226	27,986	6,156	260,518	26
L & G	Eq UK	194,621	0	17,447	0	212,068	21
BAILLIE GIFF	Eq Gbl	163,062	361	19,644	0	183,067	18
SCHRODERS	Prop UK	95,751	3,545	5,891	3,445	105,188	10
INVESTEC	Bd Gbl	97,033	0	468	0	97,501	10
L & G	Bd UK IL	51,422	0	-2,252	0	49,170	5
BAILLIE GIFF	Structured	46,313	69	507	0	46,888	5
RUFFER	Absolute	45,518	0	-488	0	45,030	4
INT MGD	Cash	9,325	7,481	0	106	16,806	2
Total Fund		929,350	17,682	69,204	9,707	1,016,236	100

LIMITED ACCESS

14

### Total Fund Performance



- The Fund outperformed the benchmark over the latest year for the first time in 8 years and only the second time in the last decade.
- Over the longer term of 20 years the Fund has achieved an absolute return of 6.9% per annum which was behind the benchmark return of 7.3% per annum. This compared with the UK RPI index of 2.9% per annum, a real return of 3.9% per annum.

LIMITED ACCESS

### Latest Year Attribution

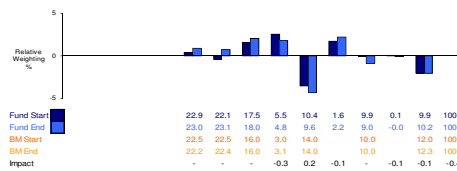
**Summary**

Fund Return	8.5
Benchmark Return	6.8
Relative Performance	1.6
<b>attributable to:</b>	
Asset Allocation	-0.4
Stock Selection	2.0

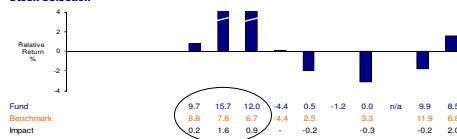
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below

	UK Equities	US Equities	Global Eq	Fixed Income	Altern	Curr Instr	Proper ty	Total Fund
--	-------------	-------------	-----------	--------------	--------	------------	-----------	------------

**Asset Allocation**



**Stock Selection**

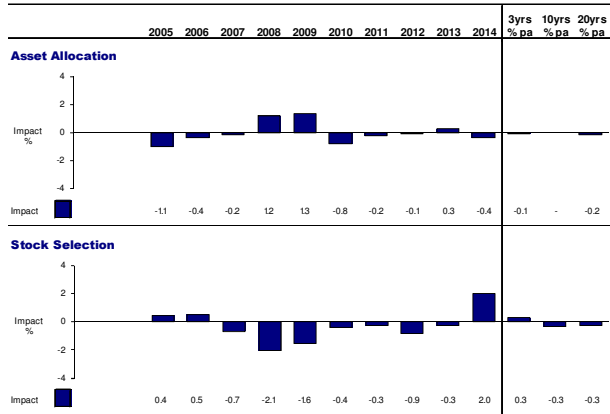


LIMITED ACCESS

- Stock selection in Equities was most beneficial.

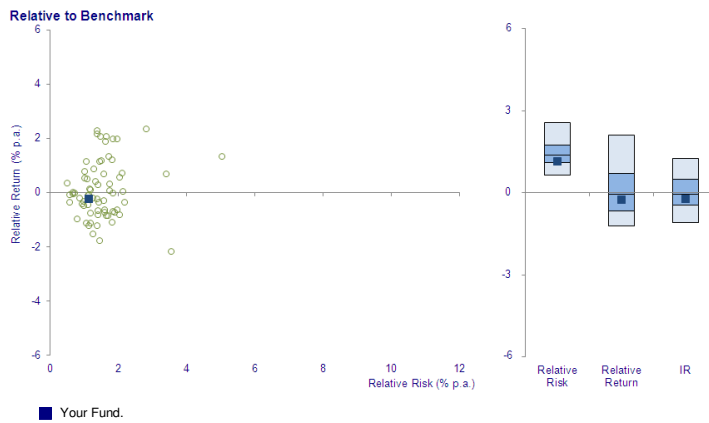


### Long Term Attribution



• Longer term stock selection has been unfavourable. This was due mainly to below benchmark returns in UK equities.

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



• Relative risk is low compared to other Fund's within the local authority universe. Unfortunately relative risk has not been rewarded in relative return during this period.

### Section 3

### Manager Performance

### Latest Year Attribution

Fund Return	8.5
Benchmark Return	8.8
Relative Performance	1.6
attributable to:	
Strategic Allocation	-0.5
Manager Contribution	1.8
Residual	0.3

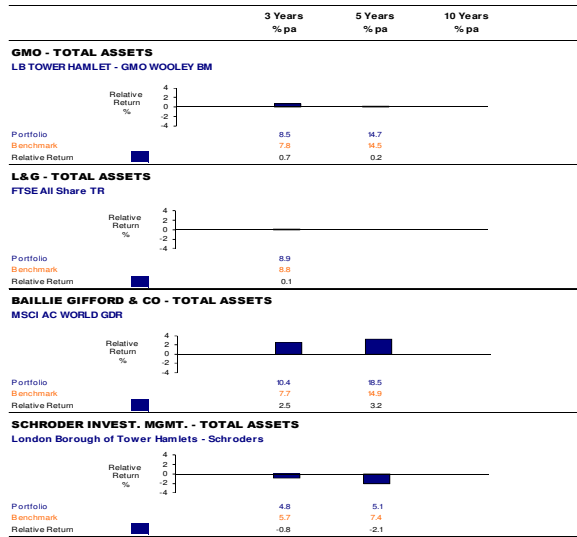
The relative performance can be attributed to the effects of manager contribution and strategic allocation.

Strategic Allocation			Manager Contribution			
Distribution		Policy	Investment	Weighted Contribution	% Return	
Portfolio	Benchmark	Contribution	Manager		Portfolio	Benchmark
24.4	25.0	-	GMO	1.6	15.1	8.0
20.9	20.0	-	L&G		9.0	8.8
17.5	16.0	-	BAILLIE GIFFORD & CO	0.9	12.0	6.7
10.4	14.0	0.1	INVESTEC ASSET MANAGEMENT	-0.2	0.5	2.5
10.3	12.0	-0.1	SCHRODER INVEST. MGMT.	-0.2	9.7	11.9
5.5	3.0	-0.3	L&G	-	-4.4	-4.4
5.0	5.0	-	BAILLIE GIFFORD & CO	-0.1	1.1	4.0
4.9	5.0	-	RUFFER INVESTMENT MGMT LTD	-0.2	-1.1	2.5
1.0	0.0	-0.1	INTERNALLY MANAGED	-	1.0	0.4
				1.8		

GMO and Baillie Gifford above benchmark returns were most beneficial.

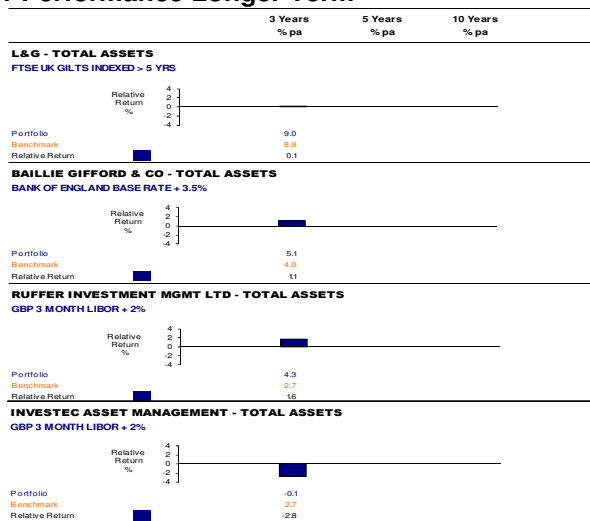
Ruffer not achieving objective to achieve positive returns over a 12 month period.

### Manager Performance Longer Term



LIMITED ACCESS

### Manager Performance Longer Term

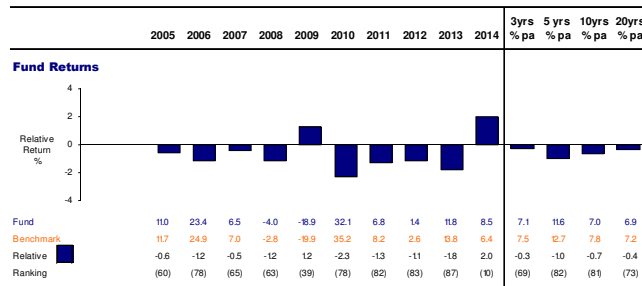


LIMITED ACCESS

## Section 4

### Total Fund Performance versus Peer Group

### Total Fund Performance

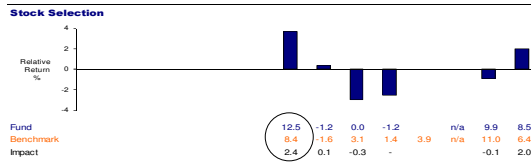
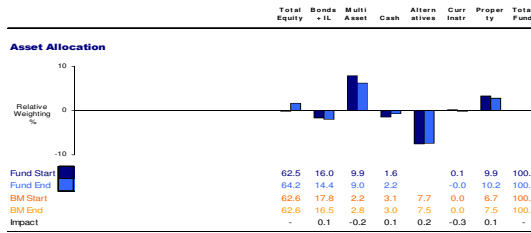


- The Fund is 2% ahead of the local authority average return over the latest year, ranking in the top range of returns within the universe.
- However, over the longer term of 10 years there have only been 2 years where above average returns have been recorded.
- The return of 6.9% per annum over the 20 year period was 0.4% per annum behind the local authority average return.

### Latest Year Attribution

Fund Return	8.5
Benchmark Return	6.4
Relative Performance	2.0
attributable to:	
Asset Allocation	-
Stock Selection	2.0

The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below

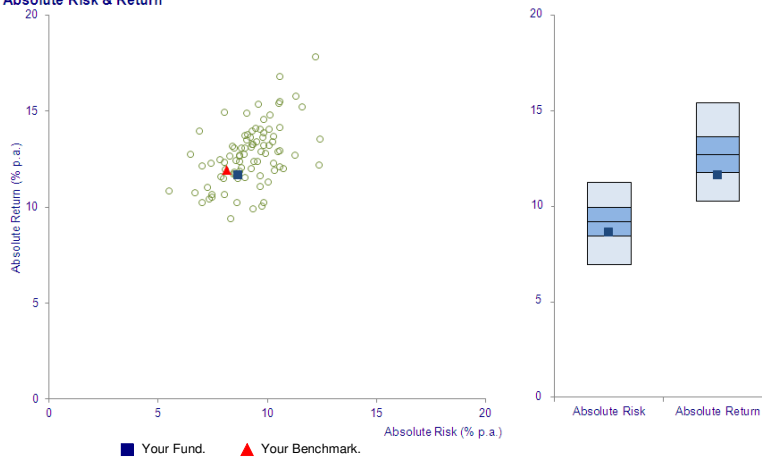


LIMITED ACCESS

The well above average return in Equities was most beneficial.

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

Absolute Risk & Return



The Fund has lower absolute risk compared to other funds within the universe. During a period where risk assets have been rewarded in return, the Fund return is within lower quartile range of returns.

LIMITED ACCESS

# Appendix

## Summary of Long Term Returns and Rankings

Return %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	3yrs % pa	10yrs % pa	20yrs % pa
<b>Total Equity</b>	2.6 (50)	32.1 (25)	5.1 (94)	-7.8 (87)	-24.4 (24)	48.4 (68)	9.2 (41)	-0.3 (84)	8.9 (87)	2.5 (1)	9.1 (85)	8.7 (50)	7.2 (77)
<b>UK Equities</b>	5.6 (23)	28.6 (17)	7.2 (98)	-8.7 (97)	-30.9 (77)	50.2 (68)	8.3 (75)	1.4 (75)	8.5 (86)	3.7 (50)	9.1 (67)	7.1 (94)	7.0 (94)
<b>N. America</b>	3.7 (64)	27.5 (16)	-2.9 (65)	-3.5 (45)	-12.2 (22)	42.4 (39)	9.0 (55)	7.3 (35)	14.9 (96)	8.2 (96)	10.1 (96)	8.2 (62)	6.9 (100)
<b>Europe ex UK</b>	8.7 (20)	35.0 (79)	11.9 (27)	4.5 (1)	-32.9 (77)	49.9 (36)	7.2 (58)	-8.0 (100)	10.0 (100)	32.1 (1)	6.9 (80)	9.5 (67)	9.0 (51)
<b>Japan</b>	-3.1 (22)	46.1 (75)	-7.1 (16)	-14.2 (25)	-9.4 (1)	30.9 (18)	3.4 (2)	-1.1 (80)	2.6 (75)	0.7 (31)	3.9 (75)	4.5 (11)	13 (10)
<b>Pacific</b>	24.8 (1)	35.9 (47)	8.7 (44)	8.5 (16)	-6.0 (15)	57.7 (12)	7.3 (12)	-2.3 (35)	24.4 (1)	3.9 (1)	8.1 (1)	8.5 (1)	7.5 (25)
<b>Other Intl.</b>	0.8 (61)	60.3 (55)	2.9 (78)	2.5#									
<b>Global Eq</b>				-7.9#	-22.4	55.2	2.0	13	8.8	10.0	10.4		
<b>Bonds + I.</b>	-0.1#	-0.3#	6.3	-0.7	2.7	13	4.2	4.9	-12	2.6			
<b>UK Bonds</b>	6.2 (33)	9.1 (30)	18 (8)	2.0 (53)	-0.4 (42)	2.4 (85)	-0.1#						
<b>UK I.</b>	5.7 (45)	8.3 (56)	2.8 (50)	9.8 (1)	-3.1 (78)	10.8 (36)	6.2 (84)	21.2 (38)	11.8 (33)	-4.4 (52)	9.0 (35)	7.0 (54)	
<b>Cash</b>	8.0 (3)	13.4 (3)	7.4 (12)	8.7 (9)	11 (74)	2.5 (22)	2.0 (29)	0.6 (50)	16 (32)	-12 (75)	0.3 (64)	5.2 (9)	n/a
<b>Multi Asset</b>							-0.1#	3.6	10.9	0.0	4.7		
<b>Property</b>	8.1 (56)	22.6 (43)	21.0 (7)	-8.2 (26)	-27.0 (36)	4.8 (77)	6.9 (80)	4.6 (64)	0.7 (64)	9.9 (77)	5.0 (63)	4.3 (51)	6.9 (5)
<b>Total Assets</b>	11.0 (60)	23.4 (78)	6.5 (65)	-4.0 (63)	-19.9 (38)	32.1 (78)	6.8 (82)	1.4 (83)	11.8 (87)	8.5 (10)	7.1 (69)	7.0 (81)	6.9 (73)

# no 1 invested in this area for the entire period

## 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.