

# Investment Performance

The first section of this article looks at the performance of our main funds.

Each of our individual pension schemes has its own tailored investment strategy by using a mix of the funds set out below. For each of the funds we can therefore use stock market returns as benchmarks for measuring our relative performance.

## The 'Credit Crunch'

The 'credit crunch' had a significant impact on the markets since the second half of 2007, the root cause being concerns about investors' exposure to the US sub-prime mortgage sector. This manifested itself initially in US banks (and then other international banks) reducing their inter-bank lending activities. Bond markets were affected as investors turned to Government stocks in a 'flight to quality', and equity markets suffered as a result of investors using quantitative strategies in the corporate bond sector being forced to sell in order to recoup their losses. Equity and bond markets have been volatile mainly due to concerns about the prospect of an economic recession in the US and the impact of this on the global economy. More recently we have seen rising energy and food prices lead to concerns about higher inflation which has made the monetary authorities unwilling to reduce interest rates. Credit remains in short supply and is more expensive than it has been.

The Trust has no direct holdings in the US sub-prime mortgage sector. Our analysis also shows that the Trust's exposure to higher quality mortgage-related debt held within 'structured products' is minimal (less than 0.5% of the market value of the Fixed Interest Fund). Finally, given the concerns over inter-bank lending, we confirmed that our securities lending programme had not suffered any losses since the beginning of the 'credit crunch' but we nevertheless decided to suspend it until the completion of a due diligence review.

## The Markets

Over the 12 months to 30 June 2008, all of the world's major equity markets (with the exception of Pacific Basin and emerging markets) produced negative returns. The UK, North America, and Japan all returned -10% or worse over the period in question.

UK Government fixed income bond markets (gilts) produced positive returns over the 12 months in question of 6.2% whilst corporate bonds returned 0.2% over the same period. Index-linked gilts were the best performing asset class returning 16.1% over the same period.

UK Commercial property (as measured by the Investment Property Data Bank's Monthly Index) returned -14.9% over the year ended 30 June 2008. The fall in property valuations has arisen from the credit crunch which saw investors facing difficulties raising loans. Deteriorating economic conditions had a negative impact on rental yields.

## The Global Equity Fund

On 30 June 2008, the Trust used the relevant stock market performance in the following regions to measure performance:

Geographical Region	%
United Kingdom	40
Continental Europe	20
North America	20
Japan	12
Asia Pacific	5
Emerging Markets	3

# nce to 30 June 2008

The Global Equity Fund was launched on 1 October 2004 and over the 45 months to 30 June 2008 has performed as follows:

	12 months to 30.06.08 %	45 months to 30.06.08 % p.a.
Global Equity Fund	-11.8	10.7
Benchmark	-12.1	10.7
Relative Performance	+0.3	0.0

The performance of this fund has been assisted by The Pensions Trust's decision to take out 'contracts' to partially remove gains and losses from currency fluctuations. Over the 45 months in question, this currency hedging has succeeded in offsetting the weakening of the major currencies against sterling.

As we reported in our most recent Annual Report and Members Review, the Trust has been concerned at the disappointing relative performance of this fund in the recent past and consequently has removed some fund managers and appointed new ones. The improvement in the relative performance, albeit at a time of falling markets, is shown in the table above. Hopefully this will continue and extend as the Trust's long-term aim for this fund is to outperform its benchmark by 1.0% per annum over rolling five-year periods.

## The Fixed Income Fund

The Trust uses the relevant stock market performance covering the following economic sectors to measure performance:

Type of Bond	%
Government	60
Non-Government	40

Over the 45 months to 30 June 2008, this fund has performed as follows:

	12 months to 30.06.08 %	45 months to 30.06.08 % p.a.
Fixed Income Fund	2.7	3.3
Benchmark	4.8	3.7
Relative Performance	(2.1)	(0.4)

The Trust's long-term aim for this fund is to outperform its benchmark by 0.45% per annum over rolling five-year periods. Relative performance here is clearly unsatisfactory and this is being addressed by the Investment Committee.

## The Index-Linked Fund

The Trust uses the relevant stock market performance in the following economic sector to measure performance:

Type of Bond	%
Government Bonds	100

Over the 45 months to 30 June 2008, this fund has performed as follows:

	12 months to 30.06.08 %	45 months to 30.06.08 % p.a.
Index-Linked Fund	16.1	7.7
Benchmark	16.1	7.6
Relative Performance	0.0	+0.1

The Trust's long-term aim for this fund is to match the annual performance of its benchmark over rolling five-year periods.

## The Property Fund

The Property Fund has been managed in its current form for a lot longer than our other funds and therefore it is possible to provide performance figures over the last five years. Please find this below, along with a 12 month summary:

	12 months to 30.06.08 %	60 months to 30.06.08 % p.a.
Property Fund	-11.4	13.5
Benchmark	17.6	9.8
Relative Performance	(29.0)	+3.7

The Pensions Trust's long-term aim for this fund is for it to produce a return that is better than can be obtained from gilts over what is known as the 'property cycle'; specifically, to outperform the total return from the FTSE 5-15 year index-linked gilts index by at least 3% per annum over rolling seven-year periods.

UK commercial property valuations have suffered a sharp and severe decline since the summer of 2007 due to the 'credit crunch', which means that performance of the fund has been disappointing when compared to the performance of gilts. However, the Property Fund has held up well relative to the wider UK commercial property market as measured by the IPD monthly index.

	12 months to 30.06.08 %
Property Fund	-11.4
Average UK Commercial Property Fund	-14.9
Relative Performance	+3.5

## The Money Market Fund

The Trust uses the following benchmark to assess performance:

Rate of Interest	%
7-Day Libid*	100
* London Inter-bank Bid Rate	

Over the 33 months to 30 June 2008 the Money Market Fund has performed as follows:

	12 months to 30.06.08 %	33 months to 30.06.08 % p.a.
Money Market Fund	6.2	5.4
Benchmark	5.6	5.2
Relative Performance	+0.6	+0.2

This fund was set up in October 2005 and aims to outperform its benchmark by 0.25% per annum over rolling three-year periods.



The second part of this article is about investment options for pension schemes and members who wish to follow a more ethical investment approach.

## The Socially Responsible Investment (SRI) Funds

### 1. SRI Equity Fund

This fund invests only in companies that meet the social, ethical and environmental criteria of the FTSE 4 Good Policy Committee. This fund uses the following stock market indices to measure performance:

Market Index	%
FTSE 4 Good Global	72
FTSE 4 Good UK	28

The SRI Equity Fund was launched on 1 October 2004 and over the 45 months to 30 June 2008 has performed as follows:

	12 months to 30.06.08 %	45 months to 30.06.08 % p.a.
SRI Equity Fund	-13.9	6.7
Benchmark	-14.0	6.8
Relative Performance	+0.1	(0.1)

The Trust's long-term aim for this fund is to perform in line with the benchmark with returns benefiting from The Pensions Trust's decision to take out 'contracts' to partially remove the effects of currency fluctuations.

### 2. SRI Fixed Income Fund

The Trust uses the relevant stock market performance in the following economic sector to measure the performance of this fund:

Type of Bond	%
Government Bonds	100

This fund was launched on 1 October 2004 and over the 45 months to 30 June 2008 has performed as follows:

	12 months to 30.06.08 %	45 months to 30.06.08 % p.a.
SRI Fixed Income Fund	6.2	3.9
Benchmark	6.2	3.8
Relative Performance	0.0	+0.1

The Trust's long-term aim is for performance to be in line with its benchmark.

### 3. The Ethical Fund

This fund is offered to members who wish to invest in UK companies that make a positive contribution to society. Our fund manager does this by screening out companies that do not meet its predetermined ethical criteria.

This screening process is highly selective and consequently there is no stock market index to use as a benchmark for measuring relative performance. However the Trust has decided to use the FTSE All-Share Index purely as a basis for comparison. The Trust has offered this fund in its current form for a number of years and is therefore able to provide longer-term figures.

	12 months to 30.06.08 %	36 months to 30.06.08 % p.a.	60 months to 30.06.08 % p.a.
Ethical Fund	- 25.0	2.9	10.0
Market Comparison	- 13.0	7.2	11.3
Relative Performance	(12.0)	(4.3)	(1.3)