MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
20 December 2011 (7.30 - 9.00 pm)

Present:

COUNCILLORS

Conservative Group	+Frederick Osborne, Roger Ramsey, Melvin Wallace, Frederick Osborne (In place of Eric Munday) and Frederick Thompson (In place of Damian White)
Residents' Group	Ron Ower
Trade Union Observers	John Giles (Unison)

Apologies were received for the absence of Councillors Denis Breading, Jeffrey Tucker and David Holmes.

Substitute members: Councillors Frederick Osborne (for Eric Munday) and Frederick Thompson (for Damian White).

All decisions were taken with no votes against.

In the absence of the Chairmen and Vice Chairman Councillor Wallace was elected Chairman for the meeting.

The Chairman reminded Members of the action to be taken in an emergency.

47 **MINUTES OF THE MEETING**

The minutes of the meeting held on 9 November 2011 and of the two special meetings held on 15 December and 16 December 2011 were agreed as a correct record and signed by the Chairman. Councillor Ramsey asked that his refusal to accept that the minutes of the meetings on 15 and 16 December were correct be recorded.

48 **THE ADMISSION OF VOLKER HIGHWAYS TO HAVERING'S PENSION FUND**

Pursuant to Section 100(B)(4)(b) of the Local Government Act, 1972 the Chairman agreed that this report be taken as urgent business as delay until the next meeting of the Committee would adversely affect the pension rights of a member of staff.

The Committee were advised that Volker Highways had won the contract to provide Public Lighting services to the Council. The contract was for two and a half years and commenced on 1 November 2011, replacing the previous contract which was provided by May Gurney.

When the Public Lighting service was transferred from StreetCare's in-house team to May Gurney on 1 March 2005 the contracts of employment of a number of employees were transferred from the Council to May Gurney. The Transfer of Undertakings (Protection of Employment) Regulations ("TUPE") applied to the employment terms and conditions of the relevant employees. One of the employees concerned was a member of the LGPS.

In accordance with Government policy for Local Government employers, Volker Highways were required to provide pension benefits for future service which were broadly comparable to those provided under the LGPS or to participate in the LGPS for the provision of pension benefits for the transferring employees.

Volker Highways did not have a broadly comparable pension scheme and had applied to become an admitted body to Havering's Pension Fund, solely for the benefit of the transferred employee. If agreed, Volker Highways would be admitted under a 'closed' agreement, whereby only those employees transferring at the time the contact was effective would be admitted to the scheme; any new or existing employees of Volker Highways would not be eligible to join.

The Pension Fund's Actuary had assessed the level of indemnity bond required as £90,000 although this would need to be finalised. The contribution rate set by the Actuary for membership was 27.7% of pensionable pay.

The Committee **AGREED** to admit Volker Highways to Havering's Pension Fund, as an Admitted Body, to enable the member of staff who transferred from the Council under TUPE to continue membership (or have the right of membership) of the Local Government Pension Scheme (LGPS) subject to:

1. All parties signing up to an Admission agreement; and
2. An indemnity or insurance bond in an approved form with an authorised insurer or relevant institution being put into place to protect the pension fund.

49 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2011**

The Committee received a report from officers on the performance of the Havering Pension Fund investments for the quarter ending 30 September 2011. The net return on the funds investments for the quarter was -8.8%, an outperformance of -2.1% against the combined tactical benchmark and an under performance of -20.7% against the strategic benchmark. The overall net return of the Fund's investments for the year to 30 September 2011 was -2.2%, this represented an under performance of -2.0% against the annual tactical combined benchmark and an under performance of -14.3% against the annual strategic benchmark.

a) Hymans Robertson (HR)

HR advised the Committee that during the quarter a number of major threats to the global economic and financial system had eroded investor confidence. Although the Greek debt crisis dominated the headlines, concerns over the level of sovereign debt extended to other countries, including Spain, Italy, and even the USA. In July the world witnessed the unedifying spectacle of the USA coming close to 'default' as politicians clashed over whether and how to extend the country's debt ceiling.

The sovereign debt crisis was accompanied by evidence of a slowdown in global economic growth and talk of a 'double dip' recession. Downgrades to economic forecasts became the order of the day, culminating, in September, with a warning from the International Monetary Fund that the global economy had entered a 'dangerous new phase.' The Fund's prognosis for developed economies was one of weak and bumpy expansion, with recession a possibility if issues relating to the US and Eurozone economies were not dealt with.

Investor caution was expressed by a preference for 'safety.' Equity markets had fallen sharply during the quarter, in contrast, government bonds of countries spared the worst of the debt crisis (e.g. UK, US, Germany) fared well. The price of gold and other precious metals rose sharply.

Key events during the quarter were:

Global Economy

- Published data pointed to decelerating economic growth in UK, US, Euro-zone and Japan.
- The US central bank launched 'operation twist' in an effort to stimulate economic growth.
- Short-term interest rates were raised in the Euro-zone to counter inflationary pressures. No changes had been made in the UK or US.
- Disharmony amongst Euro-zone members over Greek debt crisis had led to criticism by US.
- Emergency liquidity was provided by leading central banks to support the banking sector.

Equities

- Bank shares fell sharply on concerns over exposure to 'at risk' sovereign debt.
- The strongest sectors relative to the 'All World' Index were Technology and Health Care (both +9.4%) and

Telecommunications (+8.8%); the weakest were Basic Materials (-10.4%) and Industrials (-7.1%).

Bonds
- The yield on 10 year US Treasuries fell below 2%, its lowest since the early 1940s.
- Greece moved closer to defaulting on sovereign debt despite rescue packages.

The outlook for the global economy remained unclear, with more risk apparent on the 'downside' than the 'upside'. Further monetary stimulus was on the agenda but the immediate priority was the sovereign debt crisis that brought the very future of the Euro into question.

HR presented the committee with a review of each of the fund's managers and provided an update on their performance.

The Committee indicated they wished to keep a close eye on Standard Life's continuing performance.

Following discussion the Committee indicated that they were happy with Ruffer's performance.

Following discussion the committee were comfortable with Royal London's performance.

State Street and UBS then gave presentations to the committee.

b) State Street Global Advisors (SS)

Kevin Cullen, Senior Relationship Manager and Richard Hannam, Head of Passive Equities, Europe attended the meeting to present an update on the investments they managed on the Fund's behalf. SS held two mandates from the Fund, both for Passive Equity Portfolios. Since inception the two portfolios had performed in line with the benchmarks, although this meant that in the third quarter the Fund had lost £13m in value.

The Committee were advised that quarter 4 had remained flat.

The Committee **noted** the presentation.

c) UBS

Justin Brown, Portfolio Manager UBS Triton Fund and Steve Leech Client Relations attended the meeting to present an update on the investments they managed on the Fund's behalf. The only change in the team was the loss of Claire Felgate who was responsible for Investor Relations. They offered to provide training for the Committee.

Over the last year the fund had out-performed its benchmark, although in the last quarter they had slightly underperformed against the benchmark.

The Committee were informed of the breakdown of the Fund and what sectors were contributing to its success. The efforts since the end of 2009 had led to a significant reduction in voids with UBS Triton now being 3% lower than the benchmark. UBS felt that the future performance would continue to be strong.

The last time they had met the Committee UBS had informed the committee that they were intending to review they management fee arrangements. These changes had been approved although the changes relating to performance fees would not be introduced until 2015. Given the poor performance of the fund in previous years no performance fee was currently being levied. The committee were given an assurance that unless the fund was performing positively no performance fee would be levied.

Over the same period the benchmark had been changed from median to weighted average.

The Committee **noted** the report.

d) Miscellaneous

The Committee were advised that there were no Corporate Governance issues during the quarter. Officers advised the Committee that cash balances had reduced compared to previous years. Members expressed concern that for the first time benefits paid out were greater than contributions received. Officers indicated that they would be looking at ways of accessing income earned from investments to boost the cash flow for 2012/13.

The Committee noted the report and asked to be kept informed of changes in the cash flow.

Chairman
27th March 2012