



# Haverling

L O N D O N B O R O U G H

## PENSIONS COMMITTEE AGENDA

**7.30 pm**

**Tuesday  
2 October 2012**

**Town Hall, Main Road,  
Romford**

Members 7: Quorum 3

**COUNCILLORS:**

**Conservative Group  
( 4)**

**Residents' Group  
( 1)**

**Labour Group  
( 1)**

**Independent  
Residents' Group  
( 1)**

Melvin Wallace  
(Chairman)  
Becky Bennett (Vice-  
Chair)  
Eric Munday  
Roger Ramsey

Ron Ower

Pat Murray

Jeffrey Tucker

**Trade Union Observers**

**(No Voting Rights) (2)**

John Giles, (Unison)  
Andy Hampshire, GMB

**Admitted/Scheduled Bodies  
Representative**

**(No Voting Rights) (1)**

TBC

**For information about the meeting please contact:  
James Goodwin 01708 432432  
email: james.goodwin@haverling.gov.uk**

## AGENDA ITEMS

### 1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

### 2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

### 3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to disclose any pecuniary interest in any of the items on the agenda at this point of the meeting.

*Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.*

### 4 THE ADMISSION OF FAMILY MOSAIC TO HAVERING'S PENSION FUND (Pages 1 - 6)

Report attached.

### 5 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2011/12 (Pages 7 - 20)

Report attached.

### 6 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2012 (Pages 21 - 34)

Report attached.

### 7 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

**8 EXCLUSION OF THE PUBLIC**

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

**9 REVIEW OF INVESTMENT MANAGERS' PERFORMANCE FOR THE SECOND QUARTER OF 2012.** (Pages 35 - 52)

Report attached.

**10 STANDARD LIFE INVESTMENTS** (Pages 53 - 70)

Presentation from the Fund Manager.

**11 ROYAL LONDON ASSET MANAGEMENT** (Pages 71 - 94)

Presentation from the Fund Manager.

**12 INVESTMENT STRATEGY REVIEW UPDATE** (Pages 95 - 102)

Report attached.

**Ian Buckmaster  
Committee Administration &  
Member Support Manager**

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## PENSIONS COMMITTEE

2 October 2012

<b>Subject Heading:</b>	The admission of Family Mosaic to Havering's Pension Fund
<b>CMT Lead:</b>	Lorna Payne, Group Director, Adults and Health
<b>Report Author and contact details:</b>	Rinaldo Meza, Service Manager, Preventative Care, 01708 433195 E-mail: <a href="mailto:Rinaldo.meza@havering.gov.uk">Rinaldo.meza@havering.gov.uk</a>
<b>Policy context:</b>	Local Government Pensions Scheme Regulations
<b>Financial summary:</b>	The Pension Fund's actuary has assessed the level of indemnity bond required at £3,646,000.

**The subject matter of this report deals with the following Council Objectives**

Ensuring a clean, safe and green borough	[ ]
Championing education and learning for all	[ ]
Providing economic, social and cultural activity	
in thriving towns and villages	[ ]
Valuing and enhancing the lives of our residents	[√]
Delivering high customer satisfaction and a stable council tax	[√]

**SUMMARY**

This report recommends that 106 members of staff transferring under a Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) arrangement from the London Borough of Havering to Family Mosaic continue to receive admittance to the Local Government Pension Scheme (LGPS). This is due to the tendering of a contract to provide reablement services on behalf of the Council. The recommendation of the award of the contract was approved by Cabinet on 11<sup>th</sup> July 2012.

The members of staff will be able to continue to be members of the LGPS by admitting Family Mosaic to the London Borough of Havering's Pension Fund as an admitted body.

Family Mosaic is a large not-for-profit housing association. It has been delivering contractual supported housing services for over 25 years and care and support services for over 15 years.

It is an established and successful provider of care and support services in London and Essex and has an excellent reputation for delivering high quality services. Its specialism is outcome-focussed care and support, and for a number of years it has provided in Havering a range of reputable services which promote and maximise people's ability to live independently and which support them to develop skills to achieve this.

It also has a proven track record of working effectively in partnership with the London Borough of Havering.

Family Mosaic has extensive experience of TUPE, including a transfer involving 1200 staff. It has undertaken TUPE transfers for services transferred from NHS Trusts, Social Services and various providers as part of hospital and hostel closure programmes and new community support contracts in Essex.

## **RECOMMENDATIONS**

That Members consider whether to admit Family Mosaic to Havering's Pension Fund as an admitted body to enable those members of staff who will transfer from the Council under TUPE to continue membership of the LGPS subject to;

- (a) All parties signing up to an Admission Agreement; and
- (b) 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.

## **REPORT DETAIL**

1. Family Mosaic succeeded in winning the contract to provide reablement services to the Council. The contract is for five years and will commence on 5<sup>th</sup> November 2012.
2. When the reablement service transfers from the Council's in-house team to Family Mosaic on 5<sup>th</sup> November 2012 the contracts of employment of a number of employees will transfer from the Council to Family Mosaic. The Transfer of Undertakings (Protection of Employment) Regulations ("TUPE") apply to protect the employment terms and conditions of the relevant employees except for pension rights. A number of the employees concerned are members of the LGPS.

3. In accordance with Government policy for Local Government employers, Family Mosaic are required to provide pension benefits for future service which are broadly comparable to those provided under the LGPS or to participate in the LGPS for the provision of pension benefits for the transferring employees.
4. Family Mosaic do not have a broadly comparable pension scheme and have applied to become an admitted body to Havering's Pension Fund, solely for the benefit of the transferring employees.
5. If agreed, Family Mosaic would be admitted to the pension scheme under a 'closed' agreement i.e. only those employees transferring at the time the contract is effective would be admitted to the scheme, any new or existing employees of Family Mosaic, whether they are working on the reablement contract or not, will not be eligible to join the pension scheme.
6. The Local Government Pension Scheme (Administration) Regulations 2008 enable Family Mosaic to be admitted to the LGPS as a transferee admission body.
7. Admission of non-local authority employers to the LGPS takes place by means of a formal, legal admission agreement drawn up between the interested parties. Under the terms of the regulations, the effect of such a step is that:-
  - (i) relevant employees of the admitted body can fully participate in the Scheme and so can be described as pensionable employees; and
  - (ii) the Regulations governing the Scheme treat the admitted body in exactly the same way as if it were a Scheme employer. For admission status and membership status to continue, the admitted body must adhere at all times to the Scheme regulations, including, of course, the specified terms of their individual admission agreements
8. To bring greater certainty and clarity to the formulation of admission agreements between all the parties, the regulations set out a number of mandatory matters of substance which must, therefore, be included in each admission agreement prepared under the Regulations.
9. An admission body as defined by the regulations must secure an actuarially appropriate level of indemnity, or bond, in an approved form so as to be able, as required by Regulations to satisfy the relevant administering authority (The Council). The collective purpose of these particular requirements is to protect LGPS pension funds from risk of any permanent financial loss and to guard against any deficiencies or shortfalls in the event of insolvency, or from any default by a contractor in the payment of contributions due to pension funds as may be determined by an actuary.

10. The Pension Fund's actuary has assessed the level of indemnity bond required to be £3,646,000 although the exact arrangements for the bond cover would have to be finalised and therefore the recommendation in the report is made on the condition that suitable arrangements agreeable to all parties, and in compliance with the Regulations, can be put into place.

## IMPLICATIONS AND RISKS

### **Financial Implications and risks:**

The Contribution rate set by the Actuary for the membership involved in the contract is 24.6% of pensionable pay. This is calculated on the basis that no new employees will be admitted to the Fund. The deficiency that has built up in the Pension Fund remains with the Fund and the Council and does not transfer to the new contractor.

The Actuary has assessed the level of indemnity bond cover required in respect of this contract assuming that it is not open to new entrants. The objective of the bond is to make good the funding position of the scheme if the contractor defaults on his obligations under the agreement, such as meeting the costs of early payment of pensions on redundancy for the over fifties or early retirement. This could occur at the end of the contract term or at some mid point if the contractor, for example, goes into liquidation.

The initial level of the bond cover is being set at £3,646,000. This will be reviewed as part of the triennial valuation or more frequently if required. The cost of the bond is to be borne by Family Mosaic, and was considered as part of their tender submission.

It is essential that the cover level be reviewed regularly, and that it is made clear to the new body that this will occur and that further finance may be required. This will be included in the Admission Agreement.

There is also the risk that there may be a deficiency when the admission agreement is terminated. This risk is managed by the closure valuation and associated certificate, which will be included in the admission agreement. A determined amount will be required under the agreement terms to make good the deficiency.

The Committee should also be mindful of the additional administrative obligations which fall upon the fund in respect of each admitted body. This includes the provision of valuation reports, annual accounting and statutory reporting requirements in addition to the implications of enrolling into the fund. Whilst the costs associated with these requirements will fall upon the relevant admitted body, the administrative functions associated with employers in the fund will increase.



The cost of establishing the likely employer contribution rate for an admitted body should be seen as a cost of the tendering exercise and would therefore be borne by the service letting the contract. When these costs have been determined this will be charged to the service and not the Pension Fund.

**Legal Implications and risks:**

Where staff transfer from a best value authority, The Best Value Authorities Staff Transfers (Pensions) Direction 2007 (the "Pensions Direction") requires 'broadly comparable' pension provisions to be made, by the recipient-contractor, for the staff who transfer. Granting admission body status to Family Mosaic will enable this requirement to be met.

The Local Government Pension Scheme (Administration) Regulations 2008 require an admission agreement to be entered into where admission body status is granted to an 'external' body. As set out within the body of the report, Family Mosaic will be required to provide a bond.

To comply with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Administering Authority must notify the Commissioner for Inland Revenue and the Secretary of State, within the required time periods, that the Council - as the 'Administering Authority' for the Havering pension fund - has entered into an admission agreement with Family Mosaic.

**HR Implications and risks:**

The continued admission of these members of staff to the LGPS gives them ongoing equality of pension provision with Council employees and meets the requirements of the Pensions Direction.

**Equalities implications and risks:**

A full equalities analysis has been carried out and formed an appendix to the report submitted to Cabinet on 11<sup>th</sup> July 2012.

As most of the reablement workforce is female and many are over 55 years of age, the transfer of the service to Family Mosaic will affect a disproportionately high number of staff falling within these groups. This impact is due purely to the make-up of the workforce. The impact on staff is justified because the decision to outsource the service was made in order to ensure that a greater number of people will be able to have access to reablement services at a sustainable cost, maximising and prolonging their independence.

As part of the tendering process, organisations had to indicate their intentions for the provision of pension arrangements for transferring staff, confirming that pension protection will be provided and that transferring employees will have the

right to acquire pension benefits which are the same as, or broadly comparable to, or better than, those they had the right to acquire before the transfer. In its tender submission, Family Mosaic indicated that it would be seeking Admitted Body Status to the local Government Pension Scheme.

As already indicated, staff will be transferred to Family Mosaic under the Transfer of Undertakings (Protection of Employment) Regulations 2006. They will therefore transfer under their existing terms and conditions of employment and without breaking their continuous service and, given Family Mosaic's intention to seek Admitted Body Status, with continuing membership of the LGPS.

**BACKGROUND PAPERS**

'Admitted body status provisions in the Local Government Pension Scheme when services are transferred from a local authority or other scheme employer'  
(Department for Communities and Local Government guidance paper published December 2009)

The Local Government Pension Scheme Regulations 1997 (as amended), Local Government Pension Scheme (Administration) Regulations 2008 and the Guidance notes issued with them.

Cabinet Report, 11<sup>th</sup> July 2012: Approval of award of tender: Reablement Service

Equalities Analysis, Appendix 1, Cabinet Report, 11<sup>th</sup> July 2012: Approval of award of tender: Reablement Service

<p><b>PENSIONS COMMITTEE</b></p> <p><b>2 October 2012</b></p>	<p><b>REPORT</b></p>

<b>Subject Heading:</b>	<b>BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2011/12</b>
<b>Report Author and contact details:</b>	Contact: Debbie Ford Designation: Pension fund Accountant Telephone: (01708) 432569 E-mail Address: debbie.ford@havering.gov.uk
<b>Policy context:</b>	A Business Plan incorporating training demonstrates compliance against Myners principle for effective decision making
<b>Financial summary:</b>	Training costs are met from the Pension fund

**The subject matter of this report deals with the following Council Objectives**

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

**SUMMARY**

This report sets out the work undertaken by the Committee during 2011/12 and the plan of work for the following year (2012/13) along with an assessment of the training requirements for Members of the Committee. This will form the basis of the Pension Fund Business Plan.

This report explains why a Business Plan is needed and what it should contain.

The Chairman has already approved the Business Plan/Report of the work of the Committee report prior to submission of the report to Pensions Committee so that it can be presented to the Council meeting on the 19 September 2012.

**RECOMMENDATIONS**

1. Members note the Business Plan/ Report of the work of the Committee (See Appendix A).
2. Members consider and agree the training proposals, identifying and incorporating any other needs (Paragraph 6 refers).
3. Members add any areas/topics that they want covered.

**REPORT DETAIL**

1. Each administrating authority is required by regulation 12 (3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to include in its Statement of Investment Principles the extent to which the authority's policy complies with guidance given by the secretary of state. Compliance is measured against the six principles set out in the Myners Principles.
2. In a letter from the CLG to administering authorities dated 14 December 2009 reference referred to relates to the guidance issued by Chartered Institute of Public Finance and Accountancy (CIPFA) on 11 December 2009. This is a guide to the application of the Myners Principle and includes suggested best practices that could be adopted to demonstrate compliance.
3. In Myners Principle 1: Effective Decision Making - suggested best practice is the creation of a Business Plan and a Training Plan. The Pensions Committee has, in recent years, prepared a report that has covered both Committee activities, including training and the general performance of the Fund. The latter is now a statutory requirement and will be prepared as part of the annual accounts process and included in the Annual Report. It is; however appropriate to continue to prepare a separate report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan. The Business Plan will incorporate the Training Plan. This would also demonstrate compliance against Myners Principles 1: Effective Decision making.

4. CIPFA guidance suggests that the Business Plan is submitted to the committee for consideration and should contain:
  - Major milestones & issues to be considered by the committee
  - Financial estimates – investment and administration of the fund
  - Appropriate provision for training
  - Key targets & methods of measurement
  - Review level of internal & external resources the committee needs to carry out its functions
  - Recommended actions to put right any deficiencies
5. It is important that all the Members of the Committee are adequately trained and briefed to make effective decisions and that members are aware of their statutory and fiduciary responsibilities and achieve the terms of reference of this Committee which are:
  1. To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
  2. Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
  3. To appoint and review the performance of advisers and investment managers for pension fund investments
  4. To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972.
6. Training and development will be held having regard to the work plan as shown in Annex C of Appendix A. Members have been requested to complete the CIPFA Knowledge and Skills Framework self assessment questionnaire and this will be used to develop targeted training.
7. In line with the above, a report is attached as Appendix A.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

1. Training costs are met from the Pension Fund directly or via the Advisor Fee.

2. There is a considerable risk of poor decision making if Members of the Committee are not adequately trained.

**Legal implications and risks:**

The specialist training of those Members who oversee the administration of the Council Pension Scheme is highly desirable in order to help show the proper administration of the scheme. The Council's Constitution recommends that the Membership of the Pension Committee remains static for the life of the Council for the very reason that Members need to be fully trained in investment matters. The life of the Council is considered to be the four year term.

**Human Resources implications and risks:**

None arising directly.

**Equalities implications and risks:**

None arising directly.

**BACKGROUND PAPERS**

CIPFA Guide investment decision making and disclosure (Dec 09)



# Havering

LONDON BOROUGH

## **HAVERING PENSION FUND**

**BUSINESS PLAN/REPORT ON THE WORK  
OF THE  
PENSIONS COMMITTEE  
DURING  
2011/12**

## INTRODUCTION

The Havering Pension Fund (the Fund) provides benefits to Council employees (except teachers). The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. It is therefore beneficial to issue a Business Plan/Annual report to all Council Members on the Havering Pension Fund and the work of the Pensions Committee.

The Business Plan looks forward over the next three years and will be reviewed and updated annually.

This report also covers the period 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2012 and outlines:

- The work of the Pensions Committee
- Key issues arising during the course of the year

The financial position and the performance of the Havering Pension Fund for 2011/12 is featured as part of the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

## BACKGROUND TO THE PENSION FUND

The Council is an Administering Authority under the Local Government Pension Scheme Regulations and as such invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Council had delegated the responsibility for investment strategy and performance monitoring to the Pensions Committee.

The Havering Pension Fund has adopted a benchmark for the overall fund of Gilts + 2.9% (net of fees). The Fund had five different fund managers (who have specific mandates) during 2011/12 and performance is monitored against an agreed benchmark. The Pensions Committee appointed a new global Equity Manager (Baillie Gifford) in December 2011 but they did not start trading until April 2012.

The positioning of the fund as at March 2012 was as follows:

Manager and target percentage of total Fund awarded	Mandate	Tactical Benchmark (what managers are measured against)	Out performance Target
Standard Life 20%	UK Equities	FTSE All Share Index	2%
State Street (SSgA) (Account 1) 15%	UK/ Global Equities - Passive	UK – FTSE All Share Index Global (ExUK) – FTSE All World Ex UK Index MSCI All World Index	To track the benchmark
State Street (SSgA) (Account 2) 25%	UK/ Global Equities - Passive	UK – FTSE All Share Index Global (ExUK) – FTSE All World Ex UK Index MSCI All World Index	To track the benchmark
Royal London Asset Management (RLAM) 25%	Investment Grade Bonds	<ul style="list-style-type: none"> <li>• 50% iBoxx Sterling Non Gilt Over 10 Year Index</li> <li>• 16.7% FTSE Actuaries UK Gilt Over 15 Years Index</li> <li>• 33.3% FTSE Actuaries Index-Linked Over 5 Year Index</li> </ul>	0.75%
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 5%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3months) +4%	To outperform the benchmark

Fund Managers present performance updates on a quarterly basis. They report every 6 months at the Pensions Committee and on alternate quarters meet with officers for an informal meeting, with the exception of Ruffer and State Street who will attend two meetings per year (one with officers and one with the committee).

The Fund also uses the services of WM Performance Measurers to independently report on fund manager performance.



## FUND MANAGEMENT STRUCTURE

Day to day management of the fund is delegated to the Group Director of Finance and Commerce. The Committee also obtains and considers advice from the authority's officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

The membership of the Pensions Committee reflects the political balance of the Council and the structure of the Pensions Committee during the period April 2011 to March 2012 was as follows:

Cllr Eric Munday (Chair) – Conservative Group  
Cllr Damian White (Vice-Chair) – Conservative Group  
Cllr Roger Ramsey – Conservative Group  
Cllr Melvin Wallace – Conservative Group  
Cllr Ron Ower – Residents Group  
Cllr Denis Breeding – Labour Group  
Cllr Jeffrey Tucker - Independent Local Residents Group

Non voting Union Members:

John Giles (Unison)  
Andy Hamsphire (GMB) from January 2012

Non voting Admitted/Scheduled Body Representative:

David Holmes – Havering College of Further and Higher Education

There were some changes made to the elected members of the committee in May 2012 and the current structure as at the date of the report publication is as follows:

Cllr Melvin Wallace (Chair) – Conservative Group  
Cllr Rebecca Bennett (Vice-Chair) – Conservative Group  
Cllr Roger Ramsey – Conservative Group  
Cllr Eric Munday – Conservative Group  
Cllr Ron Ower – Residents Group  
Cllr Pat Murray – Labour Group  
Cllr Jeffrey Tucker - Independent Local Residents Group

Fund Administrator	London Borough of Havering
Actuary	Hymans Robertson
Auditors	PricewaterhouseCoopers LLP (PWC)
Performance Measurement	WM Company
Custodians	State Street Global Services
Investment Managers	Standard Life Investments (UK Equities) Royal London Asset Management (Investment Bonds) Alliance Bernstein Institutional Investors until February 2011(Global Equities) UBS (Property) State Street Global Assets from September 2010 (UK/Global Equities – passive) Ruffer LLP from September 2010 (Multi Asset) Baillie Gifford (Global Equities) from April 2012
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)

The terms of reference for the committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

## **PENSION COMMITTEE MEETINGS 2011/12**

The Committee met a number of times during 2011/12 and Annex A sets out the coverage but the key issues that arose in the period or since the last business plan was produced are shown below:

### **Key issues arising in the period**

- **Investment Strategy**

Interviewed Global Equities manager from the framework and appointed Baillie Gifford.

- **Investment Advisor**

Interviewed potential investment fund advisors and re appointed the current fund's advisors Hymans Robertson

- **Agreed 2010/11 Pension Fund Accounts**

- **Annual Report**

The Pension Fund Annual Report 31 March 2011 was produced and agreed in line with the LGPS (Administration) regulations.

- **Governance Policy**

In line with the 2008 Local Government Pension Scheme (LGPS) the committee undertook an annual review of the Pension Fund's Governance Compliance Statement and agreed to recommend to Governance Committee a change to the constitution with regard to training arrangements.

- **Statement of Investment Principles**

In line with the 2009 Local Government Pension Scheme (LGPS) the committee undertook a review and updated the Statement of Investment Principle.

- **Whistleblowing Requirements of the Pensions Act**

An annual review was undertaken and no issues were reported.

- **Business Plan**

The Pension Fund Business Plan for 2010/11 was agreed incorporating the work of the pension committee members.

- **Reviewed Fund Managers quarterly performance**

- **Reviewed performance of Custodians**

- **Funding Strategy Statement**

This was reviewed and updated following revisions made during the outcomes of the 2010 Valuation.

## **PENSION COMMITTEE MEETINGS 2012/13 AND ONWARDS**

In addition to the annual cyclical work programme as shown in Annex C there are a number of issues that are likely to be considered by the Pensions Committee in the coming year and beyond:

- The new LGPS scheme being introduced from April 2014
- Further Investment Strategy Review.
- Topical issues discussed as appropriate.

## INTERNAL & EXTERNAL RESOURCES

The Pensions Committee is supported by the administrating authority's finance and administration services and the associated costs are therefore reimbursed to the administrating authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts. Estimates for the medium term on Administration and Investment Management expenses follow in this report.

The Pensions Administration service consists of an establishment of 9.6 full time equivalent posts (1 post currently vacant).

The Finance service that supports the pension fund consists of an establishment of 1.5 full time equivalent posts.

## FINANCIAL ESTIMATES

### Administrative Expenses

	2010/11 Actual £000's	2011/12 Actual £000's	2012/13 Estimate £000's	2013/14 Estimate £000's	2014/15 Estimate £000's
Administration & Processing	499	522	530	530	530
Actuarial Fees	63	9	30	30	30
Audit Fees	35	35	35	35	35
Other Fees	6	5	6	6	6
Other Costs	10	15	10	10	10
<b>TOTAL</b>	<b>613</b>	<b>586</b>	<b>611</b>	<b>611</b>	<b>611</b>

### Investment Management expenses

	2010/11 Actual £000's	2011/12 Actual £000's	2012/13 Estimate £000's	2013/14 Estimate £000's	2014/15 Estimate £000's
Administration, Management & custody	1,224	1,053	1,200	1,200	1,200
Performance Measurement services	11	12	10	10	10
Other Advisory Fees	47	73	60	60	60
<b>TOTAL</b>	<b>1,282</b>	<b>1,138</b>	<b>1,270</b>	<b>1,270</b>	<b>1,270</b>

Please note the following regarding the above figures

- Takes no account of any inflationary increases
- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2012/13 onwards.
- Based on 2011/12 fund and staffing structures.
- Actuary fees were higher in 2010/11 due to the work carried out on 2010 valuation.

## TRAINING AND DEVELOPMENT STRATEGY

Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

CIPFA's knowledge and Skills self assessment training questionnaire was distributed to members in January 2011. Training will be targeted as appropriate.

Training and development took place during 2011/12 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training logs are maintained and attendance and coverage can be found in Annex B.

The Fund uses the three day training courses offered by the Local Government Employers (LGE) which is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

Members receive briefings and advice from the Funds Investment adviser at each committee meeting.

The Fund is a member of the CIPFA Pensions network which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

The Pension Fund Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

#### **TRAINING PLAN FOR 2012/13 and ONWARDS**

Associated training will be given when required which will be linked to the Pension Fund meeting coverage for 2012/13 as shown in Annex C.

Training will be targeted as appropriate.

## PENSIONS COMMITTEE MEETINGS HELD DURING 2011/12

ANNEX A

MONTH	TOPIC	ATTENDED BY
June 2011	<ul style="list-style-type: none"> <li>Agreed Business Plan/ Report on the work of the Pensions Committee 2010/11</li> <li>Pension Fund Performance Monitoring for the quarter ending 31 March 2011</li> <li>Reviewed and updated the Funding Strategy Statement as revised during the Valuation results.</li> </ul>	Cllr Eric Munday (chair) Cllr Damian White (vice chair) Cllr Roger Ramsey Cllr Fred Thompson (sub for Melvin Wallace) Cllr Ron Ower Cllr Denis Breading John Giles (UNISON)
September 2011	<ul style="list-style-type: none"> <li>Pension Fund Performance Monitoring for the quarter ending 30 June 2011</li> <li>Agreed Pension Fund Accounts 2010/11</li> </ul>	Cllr Eric Munday (chair) Cllr Damian White (vice chair) Cllr Roger Ramsey Cllr Melvin Wallace Cllr Clarence Barrett (sub for Ron Ower) Cllr Denis Breading
November 2011	<ul style="list-style-type: none"> <li>Reviewed Pension Fund's Governance Compliance Statement 2011</li> <li>Noted Whistleblowing Report</li> <li>Reviewed the services of the Pension Fund Custodian</li> <li>Agreed Pension Fund Annual Report – Year ended 31 March 2011</li> <li>Reviewed and updated the Statement of Investment Principles</li> </ul>	Cllr Eric Munday (chair) Cllr Georgina Galpin (sub for Damian White) Cllr Roger Ramsey Cllr Melvin Wallace Cllr Ron Ower
December 2011 (SPECIAL)	<ul style="list-style-type: none"> <li>Interviewed Global Equities Manager from Framework and appointed Baillie Gifford</li> </ul>	Cllr Eric Munday (chair) Cllr Fred Thompson (sub for Damian White) Cllr Melvin Wallace
December 2011 (SPECIAL)	<ul style="list-style-type: none"> <li>Interviewed potential new Investment Fund Advisors and appointed Hymans Robertson</li> </ul>	Cllr Eric Munday (chair) Cllr Fred Thompson (sub for Damian White) Cllr Melvin Wallace Cllr Ray Morgan (sub for Ron Ower)
December 2011	<ul style="list-style-type: none"> <li>Pension Fund Performance Monitoring for the quarter ending 31 September 2011</li> <li>Admitted Volker as an Admitted Body in the Pension Fund</li> </ul>	Cllr Melvin Wallace (chaired the meeting) Cllr Fred Thompson (sub for Eric Munday) Cllr Fred Osborne (sub for Damian White) Cllr Roger Ramsey Cllr Ron Ower John Giles (UNISON)

**PENSIONS COMMITTEE MEETINGS HELD DURING 2011/12**

**ANNEX A**

<b>MONTH</b>	<b>TOPIC</b>	<b>ATTENDED BY</b>
<p><b>March 2012</b></p>	<ul style="list-style-type: none"> <li>• Pension Fund Performance Monitoring for the quarter ending 31 December 2011</li> </ul>	<p>Cllr Eric Munday (chair)                      Cllr Damian White (vice chair)                      Cllr Roger Ramsey                      Cllr Georgina Galpin (sub for Melvin Wallace)                      Cllr Ron Ower                      Cllr Jeffrey Tucker                      Cllr Pat Murray                      John Giles (UNISON)                      Andy Hampshire (GMB)</p>

- Please note that three members constitute a quorum.
- Target dates for issuing agendas were met.

## PENSIONS COMMITTEE MEMBER TRAINING 2011/12

## ANNEX B

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
26 May 2011	RLAM Keynote Briefing "Tougher Times Ahead – The continuing case for active management" –delivered by Royal London the fund's Bond Manager	London Stock Exchange	Free	Cllr Munday Cllr Tucker
9 February 2012	LAPF Strategic Investment forum Presentation	London	Free	Cllr Munday
14 February 2012	CIPFA and Hymans jointly delivered training covering topics in the Knowledge and Skills framework: <ul style="list-style-type: none"> <li>o Background to LGPS</li> <li>o Governance Framework</li> <li>o Actuarial methods, standards &amp; Practices</li> <li>o Pension accounting &amp; Audit standards</li> <li>o Financial markets &amp; product knowledge</li> <li>o Investment Strategy</li> </ul>	Pewterer's Hall	£250.00 per person	Cllr Munday Cllr Ramsey Cllr D. White Cllr Ron Ower Marshajane Thompson (sub for John Giles)(UNISON) Debbie Ford

## INDICATIVE PENSIONS COMMITTEE CYCLICAL MEETINGS AND COVERAGE 2012/13

## ANNEX C

	JUNE 2012	SEPTEMBER/OCTOBER 2012	NOVEMBER 2012	DECEMBER 2012	MARCH 2013
<b>Formal Committees with Members</b>	<ul style="list-style-type: none"> <li>▪ Overall Monitoring Report on Pension Fund to end of March:               <ul style="list-style-type: none"> <li>a) Property Manager</li> <li>b) Multi Asset Manager</li> </ul> </li> <li>▪ External Audit Plan 2011/12</li> <li>▪ Internal Cash Management Policy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Overall Monitoring Report on Pension Fund to end of June:               <ul style="list-style-type: none"> <li>a) UK Equities Manager</li> <li>b) UK Bonds Manager</li> </ul> </li> <li>▪ Pension Fund Accounts 11/12</li> <li>▪ Business Plan and Work Plan inc work of the committee</li> <li>▪ Annual report on activity of Pensions Administration</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual review of Custodian</li> <li>▪ Annual review of Adviser</li> <li>▪ Annual review of Actuary</li> <li>▪ Review of Communications Policy</li> <li>▪ Review of Governance Policy</li> <li>▪ Whistleblowing Annual Assessment</li> <li>▪ Administration Strategy (regs change) if necessary</li> <li>▪ Pension Fund Annual Report</li> <li>▪ Stakeholder/ Regs review on pensions as required Activity; IDR policy; discretions – 100 weeks only – 100 weeks done verbally???</li> </ul>	<ul style="list-style-type: none"> <li>▪ Overall Monitoring Report on Pension Fund to end of September:               <ul style="list-style-type: none"> <li>a) Property Manager</li> <li>b) Passive Equity Manager</li> <li>c) Global Equity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Overall Monitoring Report on Pension Fund to end of December:               <ul style="list-style-type: none"> <li>a) UK Equities Manager</li> <li>b) UK Bonds Manager</li> </ul> </li> </ul>
<b>Officer Meeting</b>	Meeting: 15 May 12 <ul style="list-style-type: none"> <li>▪ UK Equities</li> <li>▪ UK Bonds</li> <li>▪ Passive Equity Manager</li> </ul>	Meeting: 02 Aug 12 (am) <ul style="list-style-type: none"> <li>▪ Property</li> <li>▪ Global Equity</li> <li>▪ WM presentation Meeting</li> <li>• Advisor Review (TBC)</li> </ul>	No meeting	Meeting: 14 Nov 12 (am) <ul style="list-style-type: none"> <li>▪ UK Equities</li> <li>▪ UK Bonds Manager</li> </ul>	Meeting: 13 Feb 13 (am) <ul style="list-style-type: none"> <li>▪ Property</li> <li>▪ Multi Asset Manager</li> <li>▪ Global Equities</li> </ul>
<b>Training</b>	Associated Training	Associated Training	Associated training	Associated Training	Associated training



<p><b>PENSIONS COMMITTEE</b> 2 October 2012</p>	

<b>Subject Heading:</b>	<b>PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2012</b>
<b>CMT Lead:</b>	<b>Andrew Blake Herbert</b>
<b>Report Author and contact details:</b>	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
<b>Policy context:</b>	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
<b>Financial summary:</b>	This report comments upon the performance of the Fund for the period ended 30 June 2012

**The subject matter of this report deals with the following Council Objectives**

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

**SUMMARY**

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 June 2012. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 30 June 2012 was **-2.3%**. This represents an under performance of **-1.1%** against the

combined tactical benchmark and an under performance of **-9.1%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 June 2012 was **0.3%**. This represents an under performance of **-1.8%** against the annual tactical combined benchmark and an under performance of **-23.4%** against the annual strategic benchmark.

After a strong start to the year UK Equities fell in the second quarter. In a volatile quarter the Euro-zone crisis and signs of slowing global economical growth undermined market confidence and investors sought for safety. Political turmoil in Greece, banking problems in Spain and a change of Government in France added to market uncertainty. There were no changes to UK interest rates at 0.5% and inflation is continuing to fall.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14<sup>th</sup> February 2005. These results are shown later in the report.

## RECOMMENDATIONS

That the Committee:

- 1) Considers Hymans performance monitoring report and presentation (Appendix A).
- 2) Receive a presentation from the Funds UK Equities Manager (Standard Life) and the Funds Investment Grade Bonds Manager (Royal London).
- 3) Notes the summary of the performance of the Pension Fund within this report.
- 4) Considers the quarterly reports provided by each investment manager.
- 5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
- 6) Considers any points arising from officer monitoring meetings (section 4 refers and considers whether action with regard to UBS is required (paragraph 4.3 (h – l) refers).
- 7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

## REPORT DETAIL

### 1. **Background**

- 1.1 A restructure of the fund took place during the first half of 2008 and these changes were reflected in a revised Statement of Investment Principles (SIP)

**Pensions Committee, 2 October 2012**

adopted by members in September 2008 and subsequently updated in June 2010 and November 2011.

- 1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 2.6% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. **The main factor in meeting the strategic benchmark is market performance.**
- 1.3 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance. No revisions were made to individual fund manager benchmarks as part of the investment strategy review. However the asset allocation has been revised and in line with the Statement of investment Principles as at November 2011, the asset allocations are shown in the following table against the manager's benchmarks:

1.4

<b>Manager and % of target fund allocation</b>	<b>Mandate</b>	<b>Tactical Benchmark</b>	<b>Out performance Target</b>
Standard Life 17%	UK Equities -Active	FTSE All Share Index	2%
State Street (SSgA) 26%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford Street 17%	Global Equities - Active	MSCI AC World Index	1.5 – 2.5% over rolling 5 year period
Royal London Asset Management 20%	Investment Grade Bonds	<ul style="list-style-type: none"> <li>• 50% iBoxx Sterling Non Gilt Over 10 Year Index</li> <li>• 16.7% FTSE Actuaries UK Gilt Over 15 Years Index</li> <li>• 33.3% FTSE Actuaries Index-Linked Over 5 Year Index</li> </ul>	0.75%
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 10%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark

- 1.5 The Committee appointed a Multi-Asset Manager (Ruffer) and a Passive Equity Manager (State Street Global Advisors Limited (SSgA)) in February 2010. Both Managers commenced trading from 8<sup>th</sup> September 2010.

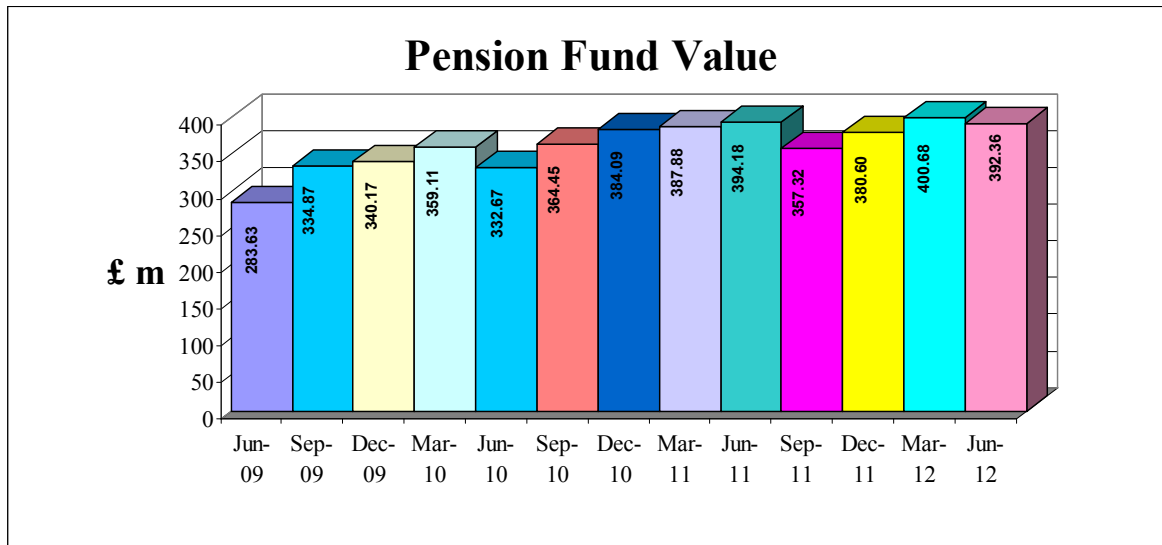
## Pensions Committee, 2 October 2012

- 1.6 The mandate with the Global Equities Manager (Alliance Bernstein) was terminated in February 2011. Assets were transferred to State Street Global Advisors pending further consideration of the investment strategy. The Fund has completed the tendering process in the search for a new Global Equity Manager and at a Special Pensions Committee on the 15 December 2011, the committee agreed to award the Global Equity Mandate to Baillie Gifford.
- 1.7 Baillie Gifford was selected from six investment managers who were appointed to the Global Equity Manager framework. The funding of this mandate will see an approximate reduction in holdings from the pension fund managers; Standard Life by 4.5%, SSgA UK Equities by 4.7%, SSgA Global by 3.7% and a possible reduction to Royal London of 4.2%.
- 1.8 A Transition Manager (Nomura) was appointed to manage the transition of assets from the existing fund managers to Baillie Gifford; part of the transition process also saw a rebalancing of the funds investments with SSgA. The transition exercise was successfully completed during April 2012.
- 1.9 UBS, SSgA and Baillie Gifford manage the assets on a pooled basis. Standard Life, Royal London and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.
- 1.10 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).
- 1.11 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset (Ruffer) and the Passive Equity (SSgA) Managers who will attend two meetings per year, one with Officers and one with Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.
- 1.12 Hyman's performance monitoring report is attached at **Appendix A**.

## **2. Fund Size**

- 2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 June 2012 was **£392.36m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £400.68 at the 31 March 2012; a **decrease of (£8.32m)**. The movement in the fund value is attributable to an increase in cash of £2.57m and a decrease in fund performance of (£10.89m). The

internally managed cash level stands at **£1.75m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£1.75** follows:

<b><u>CASH ANALYSIS</u></b>	<b><u>2010/11</u></b>	<b><u>2011/12</u></b> <b><u>Updated</u></b>	<b><u>2012/13</u></b>
	£000's	£000's	£000's
<b>Balance B/F</b>	<b>-4763</b>	<b>-8495</b>	<b>-1194</b>
Benefits Paid	25702	31123	8027
Management costs	1895	1606	62
Net Transfer Values	-3053	-58	-125
Employee/Employer Contributions	-28333	-30194	-6520
Cash from/to Managers/Other Adj.	176	4869	-2000
Internal Interest	-119	-45	-9
<b>Movement in Year</b>	<b>-3732</b>	<b>7301</b>	<b>-565</b>
<b>Balance C/F</b>	<b>-8495</b>	<b>-1194</b>	<b>-1759</b>

*\*The 2011/12 figures are based upon an interim figures and are subject to further adjustments.*

2.3 As agreed by members on the 27 June 2012 a cash management policy has now been adopted. This policy included drawing down income from the bond and property manager. Officers are currently in the process of setting up this arrangement with the fund's custodian and bond manager.

**3. Performance Figures against Benchmarks**

3.1.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	<b>Quarter to 30.06.12</b>	<b>12 Months to 30.06.12</b>	<b>3 Years to 30.06.12</b>	<b>5 years to 30.06.12</b>
Fund	-2.3%	0.3%	11.4%	0.7%
Benchmark return	-1.2%	2.1%	12.6%	3.5%
*Difference in return	-1.1%	-1.8%	-1.0%	-2.7%

Source: WM Company

\*Totals may not sum due to geometric basis of calculation and rounding.

3.1.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 2.6%) is shown below:

	<b>Quarter to 30.06.12</b>	<b>12 Months to 30.06.12</b>	<b>3 Years to 30.06.12</b>	<b>5 years to 30.06.12</b>
Fund	-2.3%	0.3%	11.4%	0.7%
Benchmark return	7.4%	30.9%	15.4%	13.9%
*Difference in return	-9.1%	-23.4%	-3.5%	-11.6%

Source: WM Company

\*Totals may not sum due to geometric basis of calculation and rounding.

3.1.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

**QUARTERLY PERFORMANCE (AS AT 30 JUNE 2012)**

	<b>Standard Life</b>	<b>Royal London</b>	<b>UBS</b>	<b>Ruffer</b>	<b>SSgA</b>	<b>Baillie Gifford<sup>1</sup></b>
<b>QUARTER</b>						
Return (performance)	-6.7	3.1	-0.1	-2.9	-3.7	-2.3
Benchmark	-2.5	3.2	0.3	0.2	-3.6	-0.9
<b>*Over/(Under) Performance vs. Benchmark</b>	<b>-4.2</b>	<b>-0.1</b>	<b>-0.4</b>	<b>-3.1</b>	<b>-0.1</b>	<b>-1.4</b>
<b>TARGET</b>	<b>-2.0</b>	<b>3.4</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>* Over/(Under) Performance vs. Target</b>	<b>-4.7</b>	<b>-0.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

## Pensions Committee, 2 October 2012

Source: WM Company, Fund Managers and Hymans

<sup>1</sup> Trading commenced 25 April so not trading for the full period. Target is measured using annualised data, so not yet applicable.

\* Totals may not sum due to geometric basis of calculation and rounding.

### **ANNUAL PERFORMANCE (LAST 12 MONTHS)**

	<b>Standard Life</b>	<b>Royal London</b>	<b>UBS</b>	<b>Ruffer</b>	<b>SSgA</b>	<b>Baillie Gifford</b>
<b>ANNUAL</b>						
Return (performance)	-10.1	17.8	2.6	-0.2	-4.1	n/a
Benchmark	-3.1	17.5	4.1	0.6	-4.1	n/a
<b>*Over/(Under) Performance vs. Benchmark</b>	<b>-7.0</b>	<b>0.3</b>	<b>-1.5</b>	<b>0.8</b>	<b>0.0</b>	<b>n/a</b>
TARGET	-1.1	18.2	n/a	n/a	n/a	n/a
<b>* Over/(Under) Performance vs. Target</b>	<b>-9.0</b>	<b>-0.4</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Ruffer and SSgA (A/c 1) Inception from 8 Sept 2010
- SSgA (A/c 2) Inception February 2011
- Baillie Gifford inception 25 April 2012

#### **4. Fund Manager Reports**

##### **4.1. UK Equities (Standard Life)**

- Representatives from Standard Life are to make a presentation at this committee; therefore a brief overview of their performance as at 30 June 2012 follows.
- During the quarter £16.8m was withdrawn from Standard Life and transferred to the new Global Equity Manager Baillie Gifford.
- The value of the Standard Life portfolio fund saw a decrease in value of 5.7% since the previous quarter (excludes transfer)
- Standard Life under performed the benchmark in the quarter by -4.2% and under performed the benchmark in the year by -7.2%.

##### **4.2. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)**

- Representatives from Royal London are to make a presentation at this committee; therefore a brief overview of their performance as at 30 June 2012 follows.

- b) During the quarter £15.7m was withdrawn from Royal London and transferred to the new Global Equity Manager Baillie Gifford and £2m was withdrawn and transferred to internally managed cash to boost the cash position.
- c) After deducting for the transfer of assets the value of the Royal London portfolio fund saw an increase in value of 3% since the previous quarter.
- d) Royal London under performed the benchmark in the quarter by -0.1% and out performed the benchmark in the year by 0.3%.

**4.3. Property (UBS)**

- a) In accordance with agreed procedures officers met with representatives from UBS on the 02 August 2012 at which a review of their performance as at 30 June 12 was discussed.
- b) The value of the UBS portfolio saw a decrease in value of 0.5% since the previous quarter.
- c) UBS under performed the benchmark in the quarter by -0.4% and under performed the benchmark in the year by -1.5%. UBS explained that timings of settlement in deals are why there are peaks and troughs in performance.
- d) UBS were asked what actions they were taking to address continuing underperformance from shopping centres in the portfolio. They mentioned that part of their strategy will be to also accept that it may be necessary to accept lower rents than leave units empty.
- e) The number of properties in the fund currently stands at 40.
- f) The void rate as at 31 December 11 was 6% against a benchmark 10.7%. There are two lettings going through the legal process at the moment so this may reduce.
- g) Over the quarter rental income was the main driver of performance.
- h) A discussion took place regarding the departure of the Portfolio Manager who is due to leave in September 2012. Responsibilities will transition to UBS Triton's assistant portfolio managers, Jo Love and John Murnaghan. Jo and John have combined experience of 25 years and report to Anthony Shayle, the Head of Global Real Estate.
- i) UBS reiterated that the transition process is being carefully managed and a clear timetable has been set and they are in line with this. Anthony explained that the quality of candidates is strong and the shortlist is down to five and hope to appoint a replacement by end of the year. There will be no change to day to day operations and the Investment committee still make the decisions.



## **Pensions Committee, 2 October 2012**

- j) The redemption queue is now valued at around £101m. This has risen from around £30m. UBS were asked how much of the £101m grew as response to the announcement regarding the Portfolio Manager and this equates to around £40m.
- k) UBS were asked how performance may be affected by the need to fulfil redemptions. They did say that there will be an impact and they have implemented a sales strategy to meet the 12 month redemption queue. They will identify any asset bubbles which are those assets that they can sell for more than their worth. They are undertaking a full scale valuation so that assets can be ranked in order and are looking at ways to reduce risk in certain areas where they have over exposure.
- l) **UPDATE:** UBS have now appointed a new portfolio Manager – Howard Meaney who joins the team on the 17 September 2012.
- m) No whistle blowing issues or governance was reported.

### **4.4. Multi Asset Manager (Ruffer)**

- a) In accordance with agreed procedures officers will only meet with representatives from Ruffer once in the year with the other meeting to be held with members. Ruffer attended their last meeting with members at the 27 June 12 Pensions Committee meeting. Officers are not due to meet with Ruffer until February 2013. A brief overview of their performance as at 30 June 2012 follows:
- b) The value of the Ruffer portfolio decreased by -2.4% compared to the previous quarter.
- c) Ruffer under performed the benchmark in the quarter by -3.0% and under performed the benchmark in the year by -0.8%.
- d) Positive contribution came from holdings in equities with strong balance sheets and cash-flows. Holdings in Johnson & Johnson, Vodafone, Wal-Mart and Kraft were among the major contributors.
- e) Negative performance came from economically sensitive equities, these included holdings in INPEX, which declined with the falling oil price and technology related holdings Cisco, Texas Instruments and Ericsson. Holdings in gold equities were also a negative contributor.

### **4.5. Passive Equities Manager (SSgA)**

- a) In accordance with agreed procedures officers will only meet with representatives from SSgA once in the year with the other meeting to be held with members. Officers met with representatives from SSgA on the 15 May 2012 and members are due to meet with SSgA at the December meeting.

- b) On termination with the funds Global Asset Manager (Alliance Bernstein) a second wave of assets was transferred to SSgA on the 23 February 2011 to be managed passively (Account 2). Since Baillie Gifford was appointed as the new global equity manager assets totalling £30m were transferred to Baillie Gifford in April 12. Accounts 1 and 2 will now be merged into one account.
- c) The new merged single account dropped in value by 2.7%
- d) As expected the portfolio performed in line with the benchmark over the quarter.

**4.6. Global Equities Manager (Baillie Gifford)**

- a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 02 August 2012 at which a review of their performance as at 30 June 12 was discussed.
- b) Trading commenced 25 April 2012. Asset values at time of transfer were £62,437,956.00. There has been a decrease in the fund value of -2.4% since inception.
- c) Since inception Baillie Gifford are below the benchmark by -1.4%.
- d) Underperformance largely due to concerns surrounding the Euro zone. Stock performed as expected but market volatility main driver of performance. Main detractors from performance were Brazilian Oil Company ODX and Yamaha.
- e) This was the first officers meeting with Baillie Gifford since appointment so they were asked to provide a recap on the four categories of investments and how these are used to structure the portfolio and generate return. The four categories are:
  - o Growth Stalwarts – This group holds strong brands and have consistent growth. Holdings in this category currently stand at about 21%.
  - o Rapid Growth – Stocks in this group have the fastest growth during a year of 15 – 20%. Holdings in this category currently stand at about 24%.
  - o Cyclical Growth – Would expect stocks in this group to have more growth over the longer term. Holdings in this category currently stand at about 38%.
  - o Latent Growth – This group would hold stocks that are most out of favour with market. More turnover of stock in this group and companies will either move to another group or be sold off. Holdings currently stand at about 15%.
- f) Baillie Gifford were asked if the structure of the portfolio will be affected by potential further market volatility in the short term and they explained that they may make some tactical reductions in holdings. They explained their investment philosophy as focusing on the longer term and believe in having

patience, making investment not speculation and seek to turn time and volatility to their advantage.

- g) Activity over the last six months has been increasing exposure to Rapid and Cyclical Growth stocks.
- h) Outlook remains uncertain and volatility likely to continue. Baillie Gifford feels that there are significant opportunities for long-term, patient investors.
- i) No governance or whistle blowing issues were reported.

**4.7 WM Performance Measurers**

Officers met with a WM representative on the 2 August 2012 who gave a presentation on the 2011/12 returns of the WM universe. A summary of the major points are as follows:

- WM universe is made up of 84 funds.
- The benchmark for the universe was 2.6%.
- Havering Pension Fund return was 4.4% and outperformed the universe benchmark by 1.8%. The outperformance can be attributed to the effects of asset allocation of 0.7% and stock selection of 1.1%.
- A positive decision in asset allocation (the split between asset classes of equities, bonds etc) means that the fund invested more than the benchmark in an area that has performed well or invested less in an area that has performed poorly. Bonds and Alternatives were the positive contributory asset classes.
- Stock selection will be positive if the fund has outperformed the benchmark in a particular area (Stocks are selected by the various Fund Managers). Stocks in equities were the only negative contributor.
- Havering Pension Fund achieved an overall ranking for the year of 23<sup>rd</sup>.
- Inflation over the last year was 3.6%, and 4.5 over three years and 3.3 % for the five and ten year periods. See table below for comparison to the Havering pension fund.

	<b>2011/12</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>10 Yrs</b>
Fund Return	4.4	15.6	1.8	4.5
<b>Benchmark (WM Universe)</b>	<b>2.6</b>	<b>14.5</b>	<b>3.2</b>	<b>5.7</b>
Relative Return	1.8	0.9	-1.3	-1.1
Ranking	23	32	81	88
Inflation (RPI)	3.6	4.5	3.3	3.3

- In 2011/12 the fund generated a return of 4.4% which exceeded inflation thereby generating a real return of 0.8% for the year. Over three years the fund can also be seen to have generated real returns when compared with inflation. However over the five year cycle the fund has not generated above inflation returns.

- WM also produced charts that show the relationship between the absolute level of return achieved and the risk taken in obtaining that return for the main assets classes. Chart showed that the Havering Pension Fund had achieved increased levels of return whilst maintaining a moderate risk level when compared with other funds in the WM universe.

## **5. Corporate Governance Issues**

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which is available for scrutiny in the Members Lounge.
2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
3. Receive quarterly information from the Investment Managers, detailing new Investments made.
  - Points 1 and 3 are contained in the Managers' reports.
  - With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

**This report is being presented in order that:**

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.
- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

Standard Life and Royal London

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

**IMPLICATIONS AND RISKS**

**Financial Implications and risks:**

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

**Legal Implications and risks:**

None arising directly

**Human Resources Implications and risks:**

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

**Equalities and Social Inclusion Implications and risks:**

None arising directly

**BACKGROUND PAPERS**

Standard Life Quarterly report to 30 June 2012  
Royal London Quarterly report to 30 June 2012  
UBS Quarterly report to 30 June 2012  
Ruffer Quarterly report to 30 June 2012  
State Street Global Assets reports to 30 June 2012  
The WM Company Performance Review Report to 30 June 2012  
Hyman's Monitoring Report to 30 June 2012

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