

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
26 June 2013 (7.30 - 9.50 pm)**

Present:

COUNCILLORS

Conservative Group	Becky Bennett (Chairman), Melvin Wallace (Vice-Chair), Steven Kelly and Roger Ramsey
Residents' Group	Ron Ower
Trade Union Observers	John Giles (UNISON)
Admitted/Scheduled Bodies	Marilyn Clay

Apologies were received for the absence of Councillor Pat Murray and Andy Hampshire.(GMB).

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

1 MINUTES OF THE MEETING

The minutes of the meetings held on 26 March and 30 April, 2013, including the exempt minutes for both meetings, were agreed as a correct record, and signed by the Chairman.

2 EXTERNAL AUDIT PLAN 2012/13 PENSION FUND AUDIT

PricewaterhouseCoopers (PWC) presented their audit plan for the Pension Fund. This year the cost would be £21,000, as compared to £35,000 last year. This saving reflects the outcome of the Audit Commission's procurement process to outsource the work of the audit practice.

The work in 2012/13 would be to:

- audit the statutory financial statements of the Fund assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- check whether the other information in the Annual Report was consistent with the Fund's financial statements; and

- bring any significant control issues or other points of interest to the attention of management and the Committee as soon as practicable throughout the year.

The Committee:

1. **noted** the auditors proposed scope and confirmed that they were comfortable with the audit risks and approach; and
2. **Approved** the proposed audit fees for the year.

3 **ANY OTHER BUSINESS**

1. Special Meeting.

The Committee were informed that a Special meeting would need to be arranged to interview potential Fund Managers for the new Multi Asset Manager. Officers advised that a whole day would be required as 6 firms would be short-listed.

The Committee **agreed** that the meeting be arranged for early September and that a briefing/training be organised for the start of the meeting.

Officers were asked to circulate to all members details of the companies on the short-list.

2. Department for Communities and Local Government – call for evidence on the future structure of the Local Government Pension Scheme.

Officers advised the Committee that the Department for Communities and Local Government (DCLG) had issued a call for evidence on the future structure of the Local Government Pension Scheme. Back in May the Local Government Association and DCLG had held a roundtable event on the potential for increased co-operation with the Local Government Pension Scheme, including the possibility of structural change to the current 89 funds. That roundtable, had proposed the following high level and secondary objectives for structural reform:

High Level objectives

- i. Dealing with deficits;
- ii. Improving investment returns.

Secondary objectives

- iii. To reduce investment fees;

- iv. To improve the flexibility of investment strategies;
- v. To provide for greater investment in infrastructure;
- vi. To improve the cost effectiveness of administration;
- vii. To provide access to higher quality staffing resources,
- viii. To provide more in-house investment resources.

The DCLG were asking consultees to address themselves to 5 specific questions, (although not exclusive). These were:

- Q1 -How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income – whilst adapting to become more efficient and to promote stronger investment performance.
- Q2 Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?
- Q3 What options for reform would best meet the high level objectives and why?
- Q4 To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?
- Q5 What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

The Committee asked members to take away the Call for evidence and provide feedback to the next meeting in July.

3. Public Sector Pensions Bill

Officers advised the Committee that the new governance arrangements proposed in the Bill would now not be implemented until 2015.

The Committee were informed that Automatic Enrolment had gone live on 1st May, 2013. 486 members had been enrolled in the Pensions scheme and 50% had opted out immediately.

The Committee noted the oral updates.

4 **EXCLUSION OF THE PUBLIC**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2013

Officers advised the Committee that the net return on the Fund's investments for the quarter to 31 March 2013 was 9.5%. This represented an out performance of 0.9% against the combined tactical benchmark and an outperformance of 8.2% against the strategic benchmark.

The overall net return for the year to 31 March 2013 was 14.4%. This represented an out performance of 1.1% against the annual tactical combined benchmark and an out performance of 2.9% against the annual strategic benchmark.

The Committee were advised that the global economic data remained mixed with signs of gradual recovery in the US, whilst Eurozone continued to be weak. Most equity markets had made gains over the first quarter of 2013. Government bonds had come under pressure but renewed concerns over Eurozone had ensured some revival in demand for safe havens. Index linked bonds had out performed fixed interest bonds following the decision to retain current RPI calculation methodology. Gross Domestic product had been estimated at -0.3%. CPI inflation had risen to 2.8% with no change in UK interest rates.

1. Hymans Robertson (HR)

HR advised that equity markets had performed strongly over the first quarter of 2013. Towards the end of March, the main equity indices in the US were approaching all-time highs. The positive tone in equity markets belied concerns about the global economic outlook. In the UK and Eurozone, economic activity contracted during the final quarter of 2012, the most recent period for which figures were available. Although the US economy showed signs of relative strength, policy makers remained cautious and were in no mood to reverse earlier stimulatory measures.

As economic activity in the UK and Eurozone faltered, the effectiveness of quantitative easing and other stimulatory measures were widely questioned by a sceptical public. In the UK, there was

even discussion of negative interest rates as a means of persuading banks to lend more. Sterling fell 4.2% in trade-weighted terms.

The Chancellor of the Exchequer had presented his March budget against a background of downward revisions to economic growth forecasts and a cut in the country's credit rating. With rising debt, austerity remains the order of the day. The budget incorporated further unpopular cuts in public spending.

Both the equity market and gilts continued to prosper in the 2nd quarter until 4.00pm on the May. After that markets started to get nervous falling back to their position at the beginning of the year.

i.e. Footsie 5900 in Jan 6100 in Jun.

Key events during the quarter were:

Global Economy ·

- The UK's credit rating was cut by Moody's, on concerns over continuing economic weakness; ·
- The UK reported a fall in economic activity in Q4 2012, raising concerns of a return to recession; ·
- Short-term interest rates in UK, US, Eurozone and Japan were held at record lows; ·
- Unemployment in Eurozone reached 12%, with wide variations (Germany 5.4%, Spain 26.3%), this included exceptionally high youth unemployment in Spain (50%); ·
- Japan announced a new package of measures (£72bn) to stimulate its 'moribund' economy.
- The Japanese Yen continued to fall sharply; ·
- The Eurozone reported a third consecutive quarter of economic contraction.

Equities ·

- Rio Tinto wrote off \$14bn in its aluminium and coal businesses;
- The strongest sectors relative to the 'All World' Index were Health Care (+7.5%) and Consumer Services (+3.8%); the weakest were Basic Materials (-11.7%) and Oil & Gas (-2.7%).

Bonds ·

- The US announced the continuation of the bond purchase programme (\$85bn per month); ·
- Index linked gilts (+7.9%) outperformed fixed interest gilts (+0.7%); this followed the decision of the UK Statistical Authority to retain the current RPI calculation methodology.

The Committee were given details of the performance of the Fund managers, a summary of which is given in the Exempt minutes.

2. Baillie Gifford (BG)

Fiona MacLeod and Hamish Dingwall attended the meeting to advise the Committee on the performance of the mandate managed by Baillie Gifford. Baillie Gifford had been appointed in April 2012.

Baillie Gifford takes a long term view and their target is to outperform the MSCI AC World Index by 2.0 – 3.0% per annum (gross) over rolling five year periods.

There had been no major changes in the portfolio since March and they anticipated no significant changes in the foreseeable future. Details of how the portfolio had been developed were provided to the Committee.

The Committee thanked Fiona and Hamish for their presentation.

3. Ruffer (Ru)

David Balance (Investment Director) and Matt Stonebridge (Investment Associate) attended the meeting to give an update on the performance of the portfolio they managed on behalf of the Pension fund.

The Pension Fund first invested with Ruffer in September 2010, and in May of this year they were given additional funds to manage. Since then Ruffer has performed excellently. However, they highlighted the difficulties they had faced since the end of May when the market dropped by 2.8%. Despite this they were confident they could outperform their benchmark target.

Details of proposed changes to the portfolio were provided for the Committee's information and it was anticipated that this would reverse the trend.

The Committee thanked David and Matt for their presentation.

4. UBS

John Murnaghan attended the meeting to update the Committee on the current position. In summary the focus of the discussions were in relation to the redemption situation with news that the liquidation notice had now been withdrawn.

The Committee thanked John for his update.

Chairman