



Haverling

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

PENSIONS COMMITTEE AGENDA

7.00 pm

**Tuesday
24 September 2013**

**Town Hall, Main Road,
Romford**

Members 7: Quorum 3

COUNCILLORS:

**Conservative
(4)**

**Residents'
(1)**

**Labour
(1)**

**UKIP
(1)**

Rebecca Bennett
(Chairman)
Melvin Wallace
(Vice-Chairman)
Steven Kelly
Roger Ramsey

Ron Ower

Pat Murray

Frederick Osborne

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

**Admitted/Scheduled Bodies
Representative**

(Voting Rights) (1)

TBA

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

AGENDA ITEMS

1 COMMITTEE MEMBERSHIP

To note the change in membership of the Committee following the Council meeting held on 4 September, 2013.

2 APPOINTMENT OF NEW FUND MANAGER'S

To receive a report from Hymans Robertson on the outcome of the Special Meeting held on 12 September, 2013. – Exempt report to follow.

3 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.

4 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

5 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.

6 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the meeting held on 26 June 2013 and the Exempt minutes of the same meeting, and authorise the Chairman to sign them.

7 PENSION FUND ACCOUNTS 2012/13 (Pages 7 - 10)

Report attached, but a copy of the final accounts to follow.

8 REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 11 - 14)

Report attached, but Appendix 'A' to follow.

9 RESPONSE TO AUDITORS: REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 15 - 16)

Preliminary report attached. Final report to follow.

10 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2012/13 (Pages 17 - 32)

Report attached.

11 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2013 (Pages 33 - 46)

Report attached.

12 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.

13 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.

14 HYMANS ROBERTSON'S REVIEW OF INVESTMENT MANAGERS' PERFORMANCE FOR THE SECOND QUARTER OF 2013.

15 PRESENTATION BY STANDARD LIFE

16 PRESENTATION BY ROYAL LONDON ASSET MANAGEMENT

**Andrew Beesley
Committee Administration
Manager**

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**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

<p>PENSIONS COMMITTEE 24 September 2013</p>	<p>REPORT</p>

Subject Heading:	PENSION FUND ACCOUNTS 2012/13
CMT Lead:	Andrew Blake Herbert
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: debbie.ford@havering.gov.uk
Policy context:	Pension Fund Accounts to be noted by the Pensions Committee prior to agreement by the Audit Committee
Financial summary:	The report comments on the Pension Fund Accounts for the year ended 31 March 2013

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 Members with an extract of the Council's Statement of Accounts for the year to 31st March 2013 showing the accounts of the Havering Pension Fund as at that date.

RECOMMENDATIONS

That the Committee consider and note the Havering Pension Fund unaudited Accounts as at 31st March 2013 and consider if there are any issues that need to be brought to the attention of the Audit Committee.

REPORT DETAIL

1. Background

1.1 The Council's Statement of Accounts for 2012/13 which are currently being audited will be presented to the Audit Committee for agreement on the 26th September 2013. As these accounts include the Pension Fund accounts any matters which, in the opinion of the Pensions Committee, would require any amendments to the accounts will need to be reported to the Audit Committee.

1.2 At the time of writing this report the Pension Fund Accounts are still subject to final clearance by our auditor's PricewaterhouseCoopers (PwC) as part of the overall audit of the Council's accounts. Once our auditors have cleared the accounts these will be distributed as a late item.

1.3 Key items to note from the statement are:

- The Net Assets of the Fund have increased to **£460m** for 2012/13 from £403m in 2011/12, a net increase of £57m.
- The net increase of £57m is compiled of a change in the market value of assets of £49m, investment income of £9.5m and offset by net withdrawals (cash) of (£0.4m) and offset by management expenses of (£1.1m).
- The overall return on the Fund's investments was 14.4%. This represented an out performance of 1.1% against the tactical benchmark and an out performance of 2.9% against the strategic benchmark.
- A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2012/13 Pension Fund Annual Report. The statutory publication date for the 2012/13 Pension fund annual Report is 1 December 2013.

- 1.4 The 2012/13 Pension Fund Annual report will be presented to the Pensions Committee on 30 October to meet the statutory publication date of 1 December 2013.
- 1.5 Included on this agenda is the draft ISA 260 report from our external auditor PWC and our response which will be circulated to members prior to the meeting. It summarises their findings from the 2012/13 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate. Our auditors have decided to separate the Pension Fund findings from the main set of accounts so this is the first time that the ISA 260 report is being presented to the Pensions Committee.

IMPLICATIONS AND RISKS

Financial Implications and risks:

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

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2013.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.
None arising directly

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers held within the Corporate Finance section.
Draft statement of Accounts 2012/13

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<p>PENSIONS COMMITTEE 24 September 2013</p>	<p>REPORT</p>
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Subject Heading:

**Report To Those Charged With
Governance
International Standard of Auditing
(ISA) 260**

CMT Lead:

Report Author and contact details:

Andrew Blake Herbert

Contact: Mike Board

Designation: Corporate Finance &
Strategy Manager

Telephone: (01708) 432217

E-mail address:

Mike.Board@havering.gov.uk

Policy context:

Pensions Committee responsible for
noting the Pension Fund Accounts

Financial summary:

N/A

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	X

SUMMARY

The draft ISA 260 report from the external auditor PWC will be circulated (as Appendix A) to members prior to the meeting. It summarises their findings from the

2012/13 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2013.

RECOMMENDATIONS

To note the contents of the Report to Those Charged with Governance (ISA260)

REPORT DETAIL

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2013.

The draft report from the external auditor summarises their findings from the 2012/13 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2013.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council's response.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

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PENSIONS COMMITTEE

REPORT

24 September 2013

Subject Heading:

Response to Auditors: Report To Those Charged With Governance International Standard of Auditing (ISA) 260

CMT Lead

Report Author and contact details:

Andrew Blake Herbert

Contact: Mike Board

Designation: Corporate Finance and Manager

Telephone: (01708) 432217

E-mail address:

Mike.Board@havering.gov.uk

Pensions Committee responsible for noting the accounts

Policy context:

Financial summary:

N/A

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

- | | |
|--|-------------------------------------|
| Clean, safe and green borough | <input type="checkbox"/> |
| Excellence in education and learning | <input type="checkbox"/> |
| Opportunities for all through economic, social and cultural activity | <input type="checkbox"/> |
| Value and enhance the life of every individual | <input type="checkbox"/> |
| High customer satisfaction and a stable council tax | <input checked="" type="checkbox"/> |

SUMMARY

The draft ISA 260 report from the external auditor PWC will be considered by the Committee as a separate item on this agenda. A separate report from Management will be circulated to the Committee prior to the meeting setting out their responses.

RECOMMENDATIONS

To consider and note the responses from management to the “To Those Charged With Governance (ISA260)” and the draft Letter of Representation and consider any issues raised.

REPORT DETAIL

The detailed responses to any issues raised by the external auditors as a result of their audit of the 2012/13 accounts are set out in the appendix to this report which will be circulated separately to the Committee prior to the meeting.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council’s response.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

<p>PENSIONS COMMITTEE 24 September 2013</p>	<p>REPORT</p>

Subject Heading:	BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2012/13
CMT Lead:	Andrew Blake-Herbert
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail Address: debbie.ford@havering.gov.uk
Policy context:	A Business Plan incorporating training demonstrates compliance against Myners principle for effective decision making
Financial summary:	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	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input checked="" type="checkbox"/>
High customer satisfaction and a stable council tax	<input type="checkbox"/>

SUMMARY

This report sets out the work undertaken by the Committee during 2012/13 and the plan of work for the following year (2013/14) 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.

RECOMMENDATIONS

1. Members to agree the Business Plan/ Report of the work of the Committee (See Appendix A) and refer it to full Council for consideration.
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 Department for Communities and Local Government (DCLG) 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 completed the CIPFA Knowledge and Skills Framework self-assessment questionnaire and this was used to target training. The training undertaken can be seen in Annex B within Appendix A.
7. In line with the above, a report is attached as Appendix A and will be presented to the Full Council meeting being held in October.

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. The requirements around training and competence of those in charge of pension schemes is likely to increase given forthcoming planned changes to the general pension regulatory framework.

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
2012/13**

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 1st April 2012 to 31st March 2013 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 2012/13 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 Pension Fund has a total of 24 employers, of which the London Borough of Havering is the largest. The other employers in the fund are made up of 16 Scheduled bodies (Academies and Further Education bodies) and 7 Admitted bodies (outsourced contracts).

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 + 1.8% (net of fees). The Fund had five different fund managers (who have specific mandates) during 2012/13 and performance is monitored against an agreed benchmark. In 2012/13, the overall return on the fund's investments was 14.2% (4.2% in 2011/12). This represented an over performance of 1.1% against the tactical benchmark (-0.6% in 2011/12) and an over performance of 2.9% against the strategic benchmark (-16.9% in 2011/12).

During 2012/13 work continued to rebalance the Fund in line with November 2011 Statement of Investment Principles (SIP) and the Interim Strategy adopted in December 2012 and later revised in March 2013:

- Following their appointment in December 2011, Baillie Gifford - Global Equity Manager commenced trading in April 2012. This was funded from withdrawing holdings from UK Equities, Bonds and the UK/Global Passive equities.
- In May 2012 funds were transferred from surplus cash to increase the holdings with the Property Manager.
- During 2012/13 the Fund undertook a full review of the SIP and whilst this was on-going members agreed an interim change to the strategy which would initially increase the asset allocation to the Absolute Return Manager from 10% to 15%. This was funded from reducing the asset allocation to the passive Global Equities Manager. The interim strategy was adopted in December 2012.
- The revised SIP was adopted on the 26 March 2013 and it was agreed that an allocation of 35% would be allocated to multi asset strategies and funded by a reduction in equities. The search for two multi asset strategy managers was started in April 2013 and it is anticipated that this will be completed by the end of September 2013. Once the multi-asset managers are appointed the actual asset allocation will reflect the March 13 SIP.

The fund managers and percentage allocation of assets of the fund as at March 2013 was as follows:

Manager	% Allocation	Mandate	Tactical Benchmark (what managers are measured against)	Out performance Target
Standard Life	18.7%	UK Equities	FTSE All Share Index	2%
State Street (SSgA)	24.1%	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	21.5%	Investment Grade Bonds	<ul style="list-style-type: none"> • 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index 	0.75%
UBS	4.9%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer	14.1%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3months) +4%	To outperform the benchmark
Baillie Gifford	16.7%	Pooled Global Equities	MSCI All World Index	1.5% – 2%.over a rolling 5 year period

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 GOVERNANCE STRUCTURE

Day to day management of the fund is delegated to the Group Director of Finance and Commerce. As already stated investment strategy and performance monitoring of the fund is a matter for the Pensions Committee which 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 2012 to March 2013 was 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
 Union Members (Non-voting) - John Giles (Unison), Andy Hampshire (GMB)
 Admitted/Scheduled Body Representative (voting) – Marilyn Clay – Champion Academy (appointed from December 12)

There were some changes made to the elected members of the committee due to Councillor Munday taking on the role of Mayor. From May 2013 the voting Committee members were as follows:

Cllr Rebecca Bennett (Chair) – Conservative Group
 Cllr Melvin Wallace (Vice Chair) – Conservative Group
 Cllr Roger Ramsey– Conservative Group
 Cllr Steven Kelly - Conservative Group
 Cllr Ron Ower – Residents Group
 Cllr Pat Murray – Labour Group
 Vacant – Independent Local Residents Group
 Marilyn Clay – Employer Representative

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 2012/13

The Committee met a number of times during 2012/13 and **Annex A** sets out the coverage of matters considered, 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 Review**

A lot of work was undertaken to review the investment strategy, which resulted in introducing an asset allocation to multi asset strategies and agreed that this will be funded by reducing direct holding in Equities. Members also decided to introduce an exposure to local infrastructure.

- **Agreed 2011/12 Pension Fund Accounts**

- **Annual Report**

The Pension Fund Annual Report 31 March 2012 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.

- **Statement of Investment Principles**

In line with the 2009 Local Government Pension Scheme (LGPS) and following the investment strategy review, the committee updated the Statement of Investment Principles.

- **Whistleblowing Requirements of the Pensions Act**

An annual review was undertaken and no issues were reported.

- **Business Plan**

The Pension Fund Business Plan for 2011/12 was agreed incorporating the work of the pension committee members.

- **Reviewed Fund Managers quarterly performance**

- **Reviewed performance of the Pension Fund’s Custodians, Investment Advisor and Actuaries**

PENSION COMMITTEE MEETINGS 2013/14 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
- Implementation of the investment Strategy Review - including interviewing for potential multi asset managers.
- Consideration of the outcomes of the funding Valuation 2013 and agreeing new employer rates for the fund.
- 2014 is an election year so there is a possibility of member changes and training of new committee members.
- Topical issues discussed as appropriate.

INTERNAL & EXTERNAL RESOURCES

The Pensions Committee is supported by the administrating authorities’ 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 9.8 full time equivalent posts.

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

FINANCIAL ESTIMATES

Administrative Expenses

	2011/12 Actual £000's	2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Administration & Processing	522	566	736	630	630
Actuarial Fees	9	30	30	30	30
Audit Fees	35	21	21	21	21
Other Fees	5	5	5	5	5
Other Costs	15	10	10	10	10
TOTAL	586	632	802	696	696

The Administration and Processing costs will increase from 2013/14 due to the purchase of an upgraded pension Administration system called ALTAIR from Heywood Limited. The contract is for five years but the 1st year costs include the implementation costs and an upfront licensing fee.

Investment Management expenses

	2011/12 Actual £000's	2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Administration, Management & custody	1,053	1,063	1,100	1,100	1,100
Performance Measurement services	12	12	12	12	12
Other Advisory Fees	73	72	70	70	70
TOTAL	1,138	1,147	1,182	1,182	1,182

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 2013/14 onwards.
- Based on 2012/13 fund and staffing structures.

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.

Training and development took place during 2012/13 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

CIPFA's knowledge and Skills self assessment training questionnaire was distributed to members in January 2011 and the common training requirements identified from these questionnaires covered the following areas:

- Investment Strategy – more awareness of the limits placed by regulations on investments within the LGPS
- Outsourcing – pension considerations in relation to outsourcing and Bulk transfers.
- Scheme specific legislation – more knowledge on the features covering the main features of the benefit side of the LGPS.

The Investment Strategy and Outsourcing training took place during 2012/13 and training regarding the benefits side of the LGPS will take place when the new LGPS scheme is introduced from April 2014.

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 2013/14 and ONWARDS

Associated training will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2013/14 as shown in **Annex C**.

In addition to the cyclical meeting as shown in Annex C, special pension committee meetings will be arranged from time to time to discuss matters that fall outside of the cyclical meetings.

Training will be targeted as appropriate.

PENSIONS COMMITTEE MEETINGS HELD DURING 2012/13

ANNEX A

MONTH	TOPIC	ATTENDED BY
27 June 2012	<ul style="list-style-type: none"> Noted the Fund's External audit Plan for the 2011/12 accounts Pension Fund Performance Monitoring for the quarter ending 31 March 2012 Agreed the adaptation of an internal Pension fund Cash Management Policy. 	Cllr Becky Bennett (chair) Cllr Georgina Galpin (sub for Melvin Wallace) Cllr Roger Ramsey John Giles (UNISON) Andy Hampshire (GMB)
30 August 2012 (SPECIAL)	<ul style="list-style-type: none"> Agreed to admit Innovate to the Pension Fund 	Cllr Melvin Wallace Cllr Eric Munday Cllr Georgina Galpin (sub for Roger Ramsey) Cllr Pat Murray Andy Hampshire (GMB)
25 September 2012 (SPECIAL)	<ul style="list-style-type: none"> Considered and noted the 2011/12 unaudited accounts 	Cllr Becky Bennett (chair) Cllr Georgina Galpin (sub for Melvin Wallace) Cllr Eric Munday Cllr Steven Kelly (sub for Roger Ramsey) Cllr Denis Breeding (sub for Pat Murray) John Giles (UNISON) Andy Hampshire (GMB)
02 October 2012	<ul style="list-style-type: none"> Noted the Business Plan/Annual Report on the work of the Pensions Committee 2011/12 Pension Fund Performance Monitoring for the quarter ending 30 June 2012 Noted the initial analysis of Investment Strategy Review 	Cllr Melvin Wallace (chair) Cllr Becky Bennett (vice chair) Cllr Georgina Galpin (sub for Eric Munday) Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray John Giles (UNISON)
31 October 2012	<ul style="list-style-type: none"> Reviewed Pension Fund's Governance Compliance Statement 2012 Noted Whistleblowing Report Reviewed the services of the Pension fund Actuary Reviewed the services of the Pension Fund Custodian Reviewed the services of the Pension fund Investment Advisor Agreed Pension Fund Annual Report – Year ended 31 March 2012 	Cllr Melvin Wallace (chair) Cllr Becky Bennett (vice chair) Cllr Eric Munday Cllr Roger Ramsey Cllr Clarence Barrett (sub for Ron Ower) Andy Hampshire (GMB)
27 November 2012 (SPECIAL)	<ul style="list-style-type: none"> Discussed the analysis and modelling for the Investment Strategy Review Considered the DCLG consultation 'Investment in Partnership' which sought views in whether any regulation changes were required to remove barriers preventing pension funds investing in infrastructure 	Cllr Melvin Wallace (chair) Cllr Georgina Galpin (sub for Eric Munday) Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray John Giles (UNISON) Marilyn Clay – employer representative as observer

PENSIONS COMMITTEE MEEETINGS HELD DURING 2012/13

ANNEX A

MONTH	TOPIC	ATTENDED BY
12 December 2012	<ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the quarter ending 31 September 2012 • Noted the impact of Auto Enrolment • Agreed Interim amendment to Statement of Investment Policy 	Cllr Melvin Wallace (chair) Cllr Georgina Galpin (sub for Becky Bennett) Cllr Eric Munday Cllr Roger Ramsey Cllr Clarence Barratt (sub for Ron Ower)
26 March 2013 (Earlier start time of 6:30pm)	<ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the quarter ending 31 December 2012 • Noted Automatic Enrolment implementation progress • Considered and agreed the Communication Strategy 2013-2015 • Considered Briefing report on impact of the Public Services Pensions Bill • Agreed the Statement of investment Principles 	Cllr Melvin Wallace (chair) Cllr Fred Thompson (sub for Becky Bennett) Cllr Eric Munday Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray observer until 7:45pm Cllr Denis Breading (sub for Pat Murray from 7:45pm) John Giles (UNISON) Andy Hampshire (GMB)

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

PENSIONS COMMITTEE MEMBER TRAINING 2012/13

ANNEX B

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
30 May 2012	Baillie Gifford – ‘Global Investor Roundtable’ – our newly appointed Global Equity Manager explaining longer term investment opportunities	Corinthia Hotel, London	Free	Cllr Wallace
14 June 2012	CIPFA – Delivering Training on ‘Introduction to the LGPS’, covered key themes: <ul style="list-style-type: none"> • Background, Regulations and Governance of the LGPS • Managing Scheme Liabilities • Audit and Accounting Requirements • Developing investment Strategies 	Canary Wharf, London	Included in subscription)	Cllr Murray Cllr Breathing Cllr Wallace
26 June 2012	Pensions overview delivered by Pension Fund Accountant	Central Library	Officer Time	Cllr Bennett
27 June 2012	Hymans – Fund’s Advisor delivering training on Investment Strategy Review – covered: <ul style="list-style-type: none"> • Understanding the importance of an investment strategy • Why periodic review is sensible • How a review may be undertaken and included issues to consider and include. 	Town Hall – prior to Pensions Committee meeting	Included as part of the fee schedule	Cllr Bennett Cllr Ramsey Cllr Galpin John Giles (UNISON) Andy Hampshire
6 September 2012	Pensions overview delivered by Pension Fund Accountant	Central Library	Officer time	Cllr Pat Murray
18/20 September 2012	Briefing sessions on Statement of Accounts (inclu, Pension Fund) – delivered by Mike Board and Debbie Ford	Town Hall	Officer Time	Cllr Galpin Cllr Ramsey Cllr Breathing Cllr Murray
02 October 2012	Hymans- Fund’s actuary delivered training covering: <ul style="list-style-type: none"> • Pensions issues, impact on Transferring Local Government Employees (Admitted Bodies) 	Town Hall – prior to Pensions committee meeting	£2,750	Cllr Galpin Cllr Wallace Cllr Ramsey Cllr Bennett Cllr Ower Cllr Murray (part) John Giles (UNISON)
01 November 2012	Infrastructure roundtable – delivered by Partners Group	Heron Tower, London	Free	Cllr Wallace Cllr Munday

PENSIONS COMMITTEE MEMBER TRAINING 2012/13

ANNEX B

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
16 November 2012	Ruffer conference	London	Free	Cllr Wallace Cllr Munday
27 November 2012	Hymans – Fund’s Advisor delivering follow up training on Investment Strategy Review - covered: <ul style="list-style-type: none"> • Objectives and initial conclusions • Understanding the current issues (low yields, weak funding level, stagnant economic conditions and negative cash flow) • Strategy Proposals – up for discussion 	Town Hall – as part of the Special Pensions Committee meeting	Included as part of the fee schedule	Cllr Wallace Cllr Ramsey Cllr Murray Cllr Ower Cllr Galpin John Giles (UNISON) Marilyn Clay (employer representative)

INDICATIVE PENSIONS COMMITTEE CYCLICAL MEETINGS AND COVERAGE 2013/14

ANNEX C

	JUNE 2013	SEPTEMBER 2013	NOVEMBER 2013	DECEMBER 2013	MARCH 2014
Formal Committees with Members	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of March 13: <ul style="list-style-type: none"> a) Property Manager b) Multi Asset Manager c) Pooled Global Equity Manager ▪ External Audit Plan 2012/13 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of June: <ul style="list-style-type: none"> a) UK Equities Manager b) UK Bonds Manager ▪ Pension Fund Accounts 12/13 ▪ Business/Work Plan inc. work of the committee 	<ul style="list-style-type: none"> ▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Administration Strategy (regs change) if necessary ▪ Pension Fund Annual Report 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of September: <ul style="list-style-type: none"> a) Property Manager b) Passive Equity Manager c) Pooled Global Equity Manager • Review of Funding Strategy Statement • Valuation 2013 results 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of December: <ul style="list-style-type: none"> a) UK Equities Manager b) UK Bonds Manager:
Officer Meeting	Meeting: 20 May 13 <ul style="list-style-type: none"> ▪ UK Equities ▪ UK Bonds ▪ Passive Equity Manager 	Meeting: 19 Aug 13 (am) <ul style="list-style-type: none"> ▪ Property ▪ Global Equity ▪ WM presentation Meeting • Advisor Review (TBC) • Custodian Review (TBC) 	No meeting	Meeting: 15 Nov 13 (pm) <ul style="list-style-type: none"> ▪ UK Equities ▪ UK Bonds Manager 	Meeting: 25 Feb 14 (am) <ul style="list-style-type: none"> ▪ Property ▪ Multi Asset Manager ▪ Global Equities
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

<p>PENSIONS COMMITTEE 24 September 2013</p>	<p>REPORT</p>

Subject Heading:	PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2013
CMT Lead:	Andrew Blake Herbert
Report Author and contact details:	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 30 June 2013

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 2013. 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 2013 was **-0.4%**. This represents an out performance of **1.0%** against the combined tactical benchmark and an out performance of **5.0%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 June 2013 was **16.6%**. This represents an out performance of **3.3%** against the annual tactical combined benchmark and an out performance of **18.7%** against the annual strategic benchmark.

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

RECOMMENDATIONS

That the Committee:

- 1) Considers Hymans performance monitoring report and presentation (Appendix A - exempt).
- 2) Receive a presentation from the Funds UK Equities Manager (Standard Life) and the Funds Investment Grade Bonds Manager (Royal London).- exempt
- 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).
- 7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. **Background**

- 1.1 The Fund undertook a full review of the Statement of Investment Principles (SIP) during 2012/13 and whilst this was on-going members agreed an interim change to the strategy in December 2012 which increased the asset

Pensions Committee, 24 September 2013

allocation to the Absolute Return Manager from 10% to 15%. The final SIP was agreed in March 2013 and the portfolio is currently being restructured to reflect those decisions.

- 1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 1.8% (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.
- 1.4 Changes to the Asset Allocation targets were agreed by members at the Pensions Committee meeting on the 26 March 2013. The long term strategy of the fund adopted at the meeting is to reduce exposure to equities and invest in multi asset strategies. Pending appointment of the providers of the multi-asset mandates members agreed to adopt an interim strategy which considered the fund rebalancing its overweight position in equities. During May, 5% of the fund was switched from SSgA's UK/Global Equities Manager to an SSgA cash fund. The long term strategy decisions are likely to be progressed during September 2013. No other changes have yet been made to the individual manager allocation and are shown in the following table against the manager's benchmarks:

Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
Standard Life 17%	UK Equities - Active	FTSE All Share Index	2%
State Street (SSgA) 21%	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"> • 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK • Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index 	0.75%

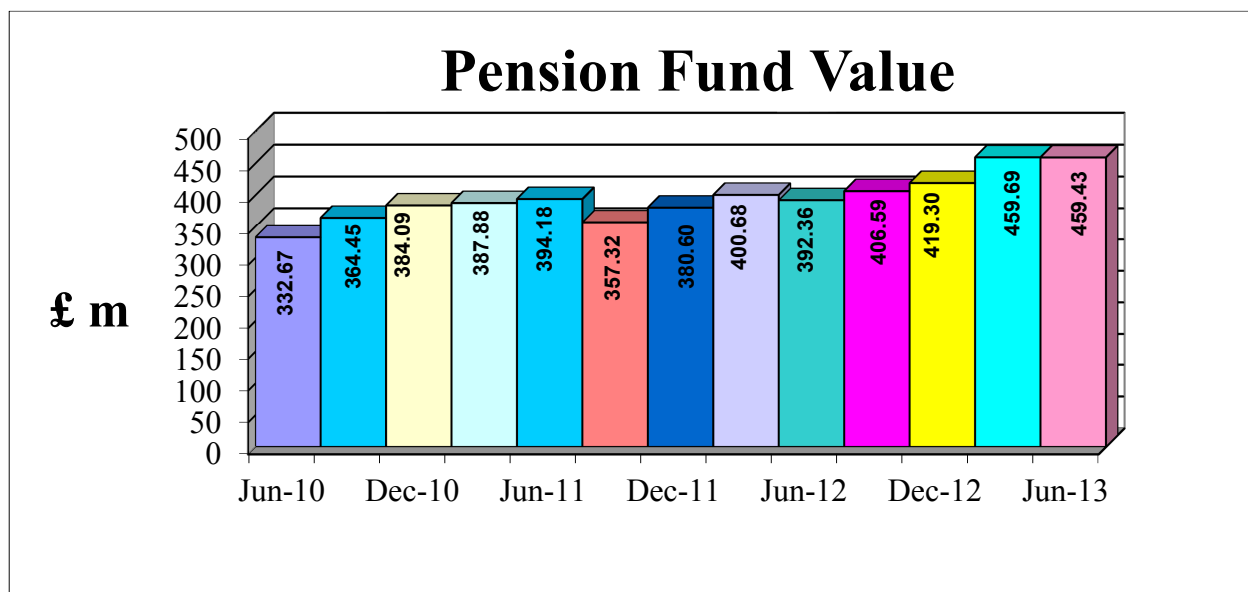
Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 10%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark
State Street (SSgA) 5%	Sterling Liquidity Cash Fund	7-day LIBID	To outperform the benchmark

- 1.5 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.
- 1.6 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).
- 1.7 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.
- 1.8 Hyman’s performance monitoring report is attached at **Appendix A. (exempt report)**

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 2013 was **£459.43m**. 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 £459.69m at the 31 March 2013; a **decrease** of £0.26m. The movement in the fund value is attributable to an increase in cash of £0.71m and a decrease in fund performance of - £0.97m. The

internally managed cash level stands at **£3.90m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£3.90** follows:

<u>CASH ANALYSIS</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
	£000's	£000's	£000's
Balance B/F	-8495	-1194	-3474
Benefits Paid	31123	31272	8685
Management costs	1606	1779	174
Net Transfer Values	-58	-1284	192
Employee/Employer Contributions	-30194	-30222	-9373
Cash from/to Managers/Other Adj.	4869	-3780	-90
Internal Interest	-45	-45	-16
Movement in Year	7301	-2280	-428
Balance C/F	-1194	-3474	-3902

2.3 As agreed by members on the 27 June 2012 a cash management policy has now been adopted. The policy sets out that should the cash level fall below the de-minimus amount of £2m this should be topped up to £4m. This policy includes drawing down income from the bond and property 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:

	Quarter to 30.06.13	12 Months to 30.06.13	3 Years to 30.06.13	5 years to 30.06.13
Fund	-0.4%	16.6%	11.2%	6.2%
Benchmark return	-1.3%	12.9%	10.4%	7.1%
*Difference in return	1.0%	3.3%	0.8%	-0.8%

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:

	Quarter to 30.06.13	12 Months to 30.06.13	3 Years to 30.06.13	5 years to 30.06.13
Fund	-0.4%	16.6%	11.2%	6.2%
Benchmark return	-5.1%	-1.8%	10.8%	11.5%
*Difference in return	5.0%	18.7%	0.4%	-4.7%

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 2013)

	Standard Life	Royal London	UBS	Ruffer	SSgA	Baillie Gifford ¹
QUARTER						
Return (performance)	1.3	-4.9	0.3	-0.8	-0.1	1.7
Benchmark	-1.7	-5.6	1.4	0.1	-0.1	-0.1
*Over/(Under) Performance vs. Benchmark	3.0	0.7	-0.2	-0.9	0.0	1.8
TARGET	-1.2	-5.4	n/a	n/a	n/a	n/a
* Over/(Under) Performance vs. Target	2.4	0.5	n/a	n/a	n/a	n/a

Source: WM Company, Fund Managers and Hymans

Pensions Committee, 24 September 2013

¹ 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)

	Standard Life	Royal London	UBS	Ruffer	SSgA	Baillie Gifford
ANNUAL						
Return (performance)	27.6	5.1	-10.8	12.3	21.2	27.5
Benchmark	17.9	3.0	1.7	0.6	21.3	21.2
*Over/(Under) Performance vs. Benchmark	8.2	2.1	-12.5	11.6	-0.1	6.3
TARGET	19.9	3.7	n/a	n/a	n/a	n/a
* Over/(Under) Performance vs. Target	6.1	1.3	n/a	n/a	n/a	n/a

Source: WM Company, Fund Managers and Hymans

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

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

- Representatives from Standard Life are due to make a presentation at this committee therefore a brief overview of their performance as at 30 June 2013 follows.
- The value of the fund as at 30 June saw an increase in value of 1.20% on the previous quarter.
- Standard Life outperformed the benchmark in the quarter by 3.0% and outperformed the target in the quarter by 2.4%. Since inception they are below benchmark by -0.4% and -2.4% against the target.

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

- Representatives from Royal London are due to make a presentation at this committee therefore a brief overview of their performance as at 30 June 2013 follows.
- The value of the fund as at 30 June 2013 saw a decrease of 4.5% on the previous quarter.

- c) The fund achieved a net return of 4.8% during the quarter which was above the benchmark by 0.7% and above the target by 0.5%. Since inception they outperformed the benchmark by 0.6% and outperformed the target by 0.1%.

4.3. Property (UBS)

- a) In accordance with agreed procedures officers met with representatives from UBS on the 19 August 13 at which a review of their performance as at 30 June was discussed.
- b) The value of the UBS portfolio fund saw a negligible decrease in value of since the previous quarter.
- c) UBS delivered a return of 0.3% but underperformed the benchmark by 1.1% over the quarter. The Fund is behind the benchmark over the year by 12.5%.
- d) In June 2013, UBS received new investments totalling £197.5m from three UK Pension Funds. Other Clients also withdrew their redemption requests from the queue. This enabled UBS to revoke the liquidation notice issued earlier in the year. This has removed the immediate sale pressures and allows the portfolio to be managed as a going concern.
- e) UBS also mentioned that they were looking at modernising the fund with regard to the on-going governance of the fund. UBS explained that they have commissioned John Forbes Consulting to review the fund governance with a view to making proposals for change later in the year. The review will look at:
- Fund structure and regulatory impact
 - Oversight of key decisions and independent representation
 - Mechanisms for creation of new units and redemptions
 - Communication and transparency
 - Alignment of interests and conflict management
 - Liquidity, valuations and unit pricing
- f) UBS were asked to explain what the reasons were for undertaking a modernisation of the fund. They explained that the governance arrangements are out of date as they were originally set up in the 1990's. They believe that the new governance arrangements will protect the fund from instability due to the run of withdrawals experienced previously. One of the options being considered is the introduction of a maximum withdrawal amount in a given period.
- g) UBS were asked to explain what caused the significant underperformance over the past year. They explained that the performance was mainly due to the movement in the Net Asset Value of the Fund, a 16% reduction in values. This was due to historically low levels of transactions in the market and that asset values did not reflect the real values. Once the transactions started to go through more accurate values were then used.

- h) As well as looking at the modernising the fund, UBS outlined the future stating that they believe the fund has a potential to deliver outperformance of 9% p.a. over the next five years. This will be achieved by increasing rents or redeveloping existing properties. They added that they are eager to deliver performance through excellent asset management and new purchases.
- i) The number of properties in the fund currently stands at 34 and a void rate of 7.8%.
- j) The retained portfolio following implementation of their current sales programme will have a total number of properties of 28 and a void rate of 3.7%.
- k) During the last quarter they have completed a purchase of a cinema complex in Richmond and currently going through the legal process at the moment is the purchase of two supermarkets.
- l) 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 26 June 13 Pensions Committee meeting. Officers met with representatives from Ruffer on the 13 February 2013.
- b) Ruffer underperformed the benchmark in the quarter by -0.9% but has outperformed the benchmark in the year by 11.6%.

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. SSgA last met with members on the 12 December 2012 and officers met with representatives from SSgA on the 20 May 2013, at which a review of their performance as at 31 March 13 was discussed.
- b) As expected the portfolio performed in line with the benchmark over the quarter.
- c) Members agreed at the Pensions Committee on the 26 March 2013 to transfer £20m into a SSgA cash fund on a short term basis pending the implementation of the strategy to reduce exposure to equities and increase exposure to multi assets. This decision was driven by risk diversification and preservation of capital. On advice received from Hymans £20m was transferred from the MPF passive equity portfolio to the MPF Sterling Liquidity Fund during May 2013.

- d) The MPF Sterling Liquidity Fund policy is to maintain safety of principal by investing in short-term money market instruments and fixed deposits. It is a Pooled fund and is measured against a benchmark of 7-day LIBID.

4.6. Global Equities Manager (Baillie Gifford)

- a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 19 August 13 at which a review of their performance as at 30 June was discussed.
- b) The value of the Baillie Gifford portfolio fund saw an increase in value of 1.72% since the previous quarter.
- c) Baillie Gifford have outperformed the benchmark over the quarter by 1.8% (net of fees) and outperformed the benchmark by 3.2% (net of fees) over the last year. Since inception they have outperformed the benchmark by 2.9%.
- d) Baillie Gifford stated that the positive performance came from a wide range of stock contributors and no major detractors.
- e) Their fund positioning remains unchanged in it that they will continue to increase exposure to technology & innovation and the focus in Emerging Markets shifted from infrastructure to consumer- oriented companies.
- f) Current positioning of the portfolio has holdings in Growth Stalwarts (strong Brands) 26%, Rapid Growth (fastest growth) 24%, Cyclical Growth (longer term performance) 35%, Latent Growth (stocks most out of favour with the markets) 13% and cash of 2%.
- g) Baillie Gifford confirmed that there had been no strategy changes and they were continuing to focus on growth and in particular the potential growth in technology and innovation stocks. They also mentioned that the focus in Emerging Markets shifted from infrastructure to consumer-oriented companies.
- h) Baillie Gifford were asked if the philosophy of increasing exposure to technology has met their expectations and they explained that over the short term the results are fairly neutral and still too early in the process to tell but reiterated that it is all part of a long term strategy.
- i) Baillie Gifford's outlook for the portfolio over the longer term indicates that bouts of volatility may continue but believes this provides opportunity for stock pickers. They will continue to search for companies which are in good shape but believe that their stock driven approach is well placed to capitalise on long term opportunities.
- j) No governance or whistle blowing issues were reported.

4.7 WM Performance Measurers

Officers met with a WM representative on the 19 August 2013 who gave a presentation on the 2012/13 returns of the WM universe (all other LGPS funds). A summary of the major points are as follows:

- WM universe is made up of 85 funds.
- The benchmark for the universe was 13.8%.
- The WM Universe data shows that on average funds have been reducing allocations to UK Equities and increasing allocations to Overseas Equities with North America and Emerging Markets being the main focus. In the Bond markets funds have been reducing allocations to Index Linked Bonds and increasing exposure to overseas Bonds. There is a slowdown into alternatives and an increase into Diversified Growth Funds (i.e. Balanced Funds - multi assets).
- Three quarters of the funds in the universe outperformed the WM benchmark.
- Havering Pension Fund return was 14.6% and outperformed the universe benchmark by 0.7%. The outperformance can be attributed to the effects of asset allocation of 0.2% and stock selection of 0.5%.
- 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.
- Stock selection will be positive if the fund has outperformed the benchmark in a particular area (Stocks are selected by the various Fund Managers). Holdings in Equities were the largest contributor but were negated by the poor performance in Property.
- Havering Pension Fund achieved an overall ranking for the year of 32nd.

	2012/13	3 Yrs	5 Yrs	10 Yrs
Fund Return	14.6	8.7	6.0	8.5
Benchmark (WM Universe)	13.8	8.1	6.5	9.4
Relative Return	0.7	0.6	-0.5	-0.8
Ranking	32	34	65	82

- 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 2013
Royal London Quarterly report to 30 June 2013
UBS Quarterly report to 30 June 2013
Ruffer Quarterly report to 30 June 2013
State Street Global Assets reports to 30 June 2013
The WM Company Performance Review Report to 30 June 2013
Hyman's Monitoring Report to 30 June 2013

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