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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.30 pm	**Tuesday 24 June 2014**	**Town Hall, Main Road, Romford**

Members 7: Quorum 3

COUNCILLORS:

Conservative (3)	**Residents' (3)**	**UKIP (1)**
John Crowder (Chairman)	John Mylod	David Johnson (Vice-Chair)
Melvin Wallace	Ron Ower	
Roger Westwood	Linda Hawthorn	

Trade Union Observers	**Admitted/Scheduled Bodies Representative**
(No Voting Rights) (2)	**(Voting Rights) (1)**
John Giles, (Unison)	Heather Foster-Byron
Andy Hampshire, GMB	

For information about the meeting please contact:
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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 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the meeting held on 25 March, 2014 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDING 31 MARCH, 2014 (Pages 7 - 20)

To consider the attached report.

6 LOCAL GOVERNMENT PENSION SCHEME EMPLOYER DISCRETIONS

Report to follow.

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 HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 31 MARCH, 2014, (Pages 21 - 42)

To consider the attached report.

10 PRESENTATION FROM BAILLIE GIFFORD (Pages 43 - 68)

To receive a presentation on the performance of the Pension Fund's investment in the Global Alpha Portfolio.

11 PRESENTATION BY RUFFER LLP (Pages 69 - 102)

To receive a presentation from Ruffer LLP.

Andrew Beesley
Committee Administration Manager

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
25 March 2014 (7.30 - 9.00 pm)

Present:

COUNCILLORS

Conservative Group	Rebbecca Bennett (Chairman), Melvin Wallace (Vice-Chair), Steven Kelly and Roger Ramsey
Residents' Group	Ron Ower
Labour Group	Pat Murray
UKIP	Fred Osborne

Apologies were received for the absence of Andy Hampshire (GMB).

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

37 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 17 December, 2013 were agreed as a correct record subject to the addition of Councillor Fred Osborne in the list of those members in attendance at the meeting, and signed as a correct record by the Chairman.

38 **BREYER GROUP PLC**

Officers advised the Committee that since our last meeting it had been necessary to negotiate with Breyer group plc to ensure they were able to deliver the contract at a reasonable price. Negotiations had been around the value of the bond requirements and the amount of the employer's contribution rate.

Officers indicated that they were satisfied with the negotiated settlement and were confident this offered best value to the Council.

We have **noted** the oral report.

39 **FUNDING STRATEGY STATEMENT**

The Local Government Pension Scheme Regulations 1997 require Pension Funds to produce and regularly review a Funding Strategy Statement. In preparing the Funding Strategy Statement (FSS)the administering authority had had regard to:

- the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations) and,
- guidance published by CIPFA updated in 2012. This was the framework within which the Fund's Actuary carried out triennial valuations to set employers' contributions and provided recommendations to the administering authority when other funding decisions were required, such as when employers join or leave the Fund. The FSS applied to all employers participating in the Fund.

Officers advised that the draft Statement had been distributed to all participating employers in the fund. The closing date for consultation was 25 March, 2014 and no comments had been received.

We have **agreed** the revised Funding Strategy Statement.

40 **DEVELOPMENT OF THE COLLECTIVE PENSION INVESTMENT VEHICLE**

Officers advised us of recent developments for the creation of a Collective Pensions Investment Vehicle across London.

On 11 February, 2014 the Leaders Committee of London council's approved a report and the underlying business case supporting the creation of a Collective Investment Vehicle (CIV) across London. All London Boroughs had been invites to join on a voluntary basis.

The Leaders Committee had endorsed the following in order to establish the CIV.

a) A private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (ACS Operator)

b) Local Authorities wishing to participate would :
    - become shareholders in the ACS Operator;
    - contribute £1 to the ACS Operator as initial share capital;
    - Appoint an elected Councillor to act for the Local authority in exercising its rights as a shareholder of the ACS Operator.

c) A new Joint Committee (The Pensions CIV Joint Committee) would be established to act as the representative body for those London Boroughs wishing to participate in the arrangement.

d) All London Authorities were asked to give their responses by 14th April 2014 indicating whether the wished to participate in the CIV.

The following overarching principles were adopted during the development of the proposed structure.

- Investment in the ACS should be voluntary. A borough should be able to decide they do not wish to participate, or to the extent they initially decided to participate, to choose to withdraw their investment.

- If a borough chose to invest, it would be able to choose which asset classes to invest into, and how much they might invest into each asset class.

- The boroughs should have sufficient control over the ACS Operator, in order to be assured that it would be acting in their best interests.

- The ACS Operator would provide regular information to participating boroughs regarding the performance of managers, investment options, and other areas, so that information continued to be available to the same extent it was currently in order for boroughs to make investment decisions.

- Authorities seeking to invest in the ACS would also take a shareholding interest in the Operator (and have membership of the Pensions Joint committee).

- The ACS would not increase the overall investment risk faced by boroughs.

After a long discussion during which a number of questions were not answered satisfactorily we have **agreed** to advise the Council not to participate in the Collective Investment Vehicle at this time.

We would review our decision when further information was available concerning the number of boroughs who had joined the fund and around the formation and creation of the Authorised Contractual Scheme Operator. We would also like further information on the initial start-up and on-going costs.

41 **BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2013/14**

Each year the Pension Fund Administering Authority is required to submit a Business Plan to the Pensions Committee for consideration. The Business Plan 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.

We have considered the Business, and accepted that the section relating to training may need to be revisited following the elections in May, and **agreed** that it be submitted to the Council.

42 **PENSINON FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER, 2013.**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 31 December, 2013 was 2.7%. This represented an under performance of 0.7% against the combined tactical benchmark and an out performance of 3.7% against the strategic benchmark.

The overall net return for the year to 31 December, 2013 was 15.8%. This represented an out performance of 2.3% against the annual tactical combined benchmark and an out performance of 19.2% against the annual strategic benchmark.

1. Hymans Robertson (HR)

Market Summary

- Signs of a domestic and global economic recovery continued over the quarter, prompting the Bank of England to upgrade its economic forecast for the UK.

- Global equity markets had performed strongly over the quarter as investor sentiment improved and markets reacted to news of the Fed's decision to commence tapering. In Sterling terms, the US was the best region for equities (7.9%) followed by North America (7.5%), Europe ex-UK (5.8%) and the UK (5.5%). Returns on the Japanese market were buoyant at 9.7% over the quarter, but remained broadly flat in Sterling terms as the Yen continued to depreciate. The Emerging Market and Pacific ex-Japan regions lagged behind at -0.7% and -1.2% respectively.

- Conventional and index-linked gilts had struggled over the quarter as interest rates rose, returning -1.4% and -0.9% respectively. Corporate bonds had benefited from narrowing spreads, with returns broadly flat.

Scheme Performance

- Assets were valued at £485.3m as at 31 December 2013, an increase of £11.3m over the quarter. The total return on the Fund's assets over the quarter was calculated to have been 2.8%.

- Performance from the Fund's active managers was positive over the course of Q4, 2013 with all managers either performing in line with, or ahead of, benchmark.

Management changes

- During the quarter the Fund had terminated its investment with the Standard Life UK Equity mandate. On 6 December 2013 the Fund disinvested £97.6m from Standard Life Investments transferring it to Barings Diversified Asset Allocation Fund.

- A portion of the Fund's assets currently managed by State Street had been disinvested during the quarter with the proceeds being invested into Baillie Gifford Diversified Growth Fund. This was undertaken in three tranches during November and December with a total of £50m being disinvested from the global equity portfolio and £20m being disinvested from the Sterling Liquidity Fund.

Asset Allocation

- As at the quarter end, the Fund's direct allocation to equity assets was slightly overweight target at 26.8%. On a look-through basis, the allocation to equity assets was 46%. This compared with an underlying equity allocation of 62% at end Q3, 2013, the change reflecting the change in strategy implemented during the course of the quarter.

Over the quarter all the fund managers had matched or bettered their benchmark. Over the year the picture was the same with the exception of UBS Triton which had experienced well documented problems.

2. Royal London Asset Management (RLAM)

   We welcomed Paul Rayner (Head of Government Bonds) and Fraser Chisholm, (Client Account Manager) to the meeting. Quarter 4 had been a challenging quarter for the bond market, and although the portfolio had lost value the benchmark had been exceeded.

   We were advised that Quarter 1 had seen an upturn with the fund value increasing by over £3m.

   We thanked Paul and Fraser for their presentation.

We have **noted** the report.

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Chairman

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 24 June 2014	REPORT

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2014**
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 31 March 2014

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	[X]
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 31 March 2014. 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 31 March 2014 was **1.2%.** This represents an out performance of **0.1%** against the

combined tactical benchmark and an under performance of **-2.8%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 March 2014 was **7.0%.** This represents an out performance of **1.5%** against the annual tactical combined benchmark and an out performance of **7.0%** 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).
2) Receive a presentation from Baillie Gifford for its Pooled Global Equity Fund and its Diversified Growth Fund (Multi Asset) and Ruffer's Absolute Return fund (Multi Asset).
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 following the appointments of the Multi Asset Managers in September 2013, who commenced trading in December 2013; this almost completes the fund's restructuring. The Fund is still considering options for an investment in Local Infrastructure.

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 and 24 July 2013. The long term strategy of the fund adopted at those meetings was to reduce exposure to equities and invest in multi asset strategies.

1.5 The following table reflects the asset allocation split following the commencement of trading of the new multi asset managers:

Manager and % of target fund allocation	**Mandate**	**Tactical Benchmark**	**Out performance Target**
State Street (SSgA) 8%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford 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	➢ 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 5%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 15%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark
Barings – Dynamic Asset Allocation Fund 20%	Multi Asset	Sterling LIBOR (3 months) +4%	To outperform the benchmark
Baillie Gifford – Diversified Growth Fund 15%	Multi Asset	UK Base Rate +3.5%	To outperform the benchmark

1.6 UBS, SSgA, Baillie Gifford and Barings manage the assets on a pooled basis. 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.

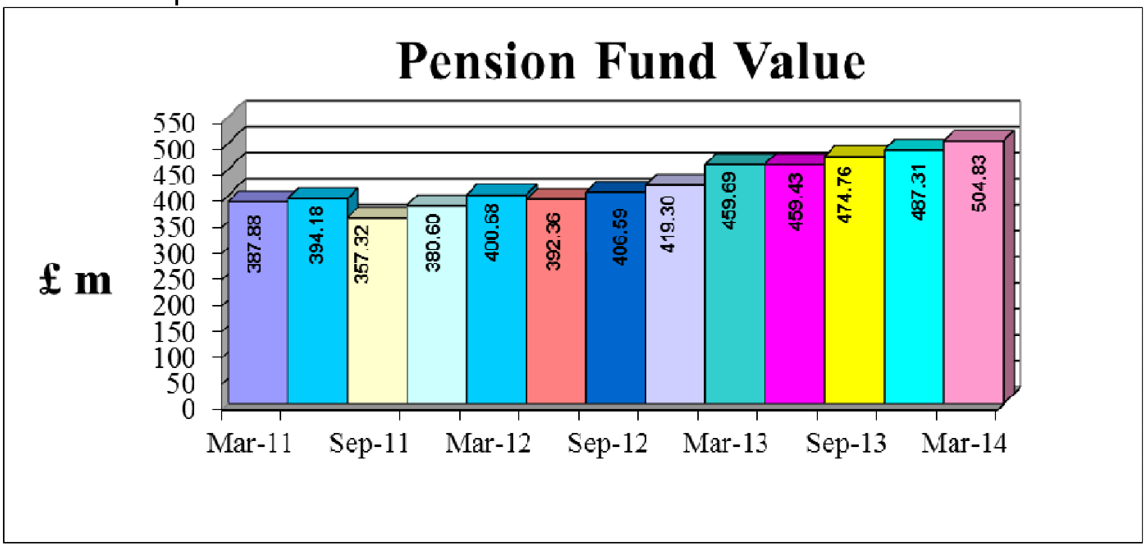
1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.8 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 Managers (Ruffer, Barings and Baillie Gifford) and the Passive Equity Manager (SSgA) who will attend two meetings per year, one with Officers and one with the 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.

1.9 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 31 March 2014 was **£504.83m**. 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 £487.31m at the 31 December 2013; an **increase** of **£17.52m**. The movement in the fund value is attributable to an increase in assets of £16.01m and an increase in cash of £1.5m. The internally managed cash level stands at **£4.24m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£4.24m** follows:

CASH ANALYSIS	**2011/12**	**2012/13 Updated**	**2013/14 31 Mar 14**
	£000's	£000's	£000's
Balance B/F	**-8495**	**-1194**	**-3474**
Benefits Paid	31123	31272	31957
Management costs	1606	1779	1770
Net Transfer Values	-58	-1284	-1131
Employee/Employer Contributions	-30194	-30222	-31593
Cash from/to Managers/Other Adj.	4869	-3780	-1675
Internal Interest	-45	-45	-98
Movement in Year	**7301**	**-2280**	**-770**
Balance C/F	**-1194**	**-3474**	**-4244**

2.3 As agreed by members on the 27June 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 31.03.14	**12 Months to 31.03.14**	**3 Years to 31.03.14**	**5 years to 31.03.14**
Fund	1.2%	7.0%	8.4%	13.4%
Benchmark return	1.1%	5.4%	7.7%	12.8%
*Difference in return	0.1%	1.5%	0.7%	0.5%

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 + 1.8% Net of fees) is shown below:

	Quarter to 31.03.14	**12 Months to 31.03.14**	**3 Years to 31.03.14**	**5 years to 31.03.14**
Fund	1.2%	7.0%	8.4%	13.4%
Benchmark return	4.2%	-0.1%	11.7%	9.5%
*Difference in return	-2.8%	7.0%	-2.9%	3.5%

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 31 MARCH 2014)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	3.7	3.3	**0.4**	3.5	**0.2**
UBS	3.3	3.3	**0.0**	n/a	**n/a**
Ruffer	-0.5	0.1	**-0.6**	n/a	**n/a**
SSgA	0.5	0.5	**0.0**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	2.0	0.5	**1.5**	n/a	**n/a**
Barings (DAAF)	-0.5	1.1	**-1.6**	n/a	**n/a**
Baillie Gifford (DGF)	0.7	1.0	**-0.3**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	0.8	-1.4	**2.2**	-0.6	**1.4**
UBS	11.4	11.9	**-0.4**	n/a	**n/a**
Ruffer	-0.4	0.5	**-0.9**	n/a	**n/a**
SSgA	6.6	6.6	**0.0**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	12.7	6.7	**6.0**	n/a	**n/a**
Barings	n/a	n/a	**n/a**	n/a	**n/a**
Baillie Gifford (DAAF)	n/a	n/a	**n/a**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Barings and Baillie Gifford Diversified Growth Fund not included as they were not invested for entire period.
- Totals may not sum due to geometric basis of calculation and rounding.

4. Fund Manager Reports

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

a) In accordance with agreed procedures officers met with representatives from Royal London on the 12 May 2014 at which a review of their performance as at 31 March 14 was discussed.

b) The Royal London portfolio fund saw an increase in value of 3.72% since the previous quarter.

c) Royal London delivered a return of 3.7% during the quarter and outperformed the benchmark by 0.4% over the quarter. Since inception they outperformed the benchmark by 0.76% and the target by 0.01%.

d) Royal London reported on market events during the quarter which saw Bond Markets rise (yields fall) as investors grew more cautious following global economic uncertainty and escalating geopolitical tensions. Later in the quarter the conflict in Ukraine had a detrimental effect on the markets and will continue to do so until settled. The March 2014 budget statement was branded as a budget for savers - increasing the threshold for tax free savings and significant changes to pension fund legislation.

e) The asset allocation within the portfolio is split between 57.5% Corporate Bonds, 27.4% Index Linked Government Bonds, 12.5% Fixed Income Government Bonds, 2.4% Overseas Bonds and 0.2% cash.

f) The portfolio is overweight to the benchmark in Corporate Bonds and Overseas Bonds and underweight in Index Linked Government bonds and Fixed Income Government Bonds.

g) Stock and sector selection within the corporate bond segment of the portfolio continued to be the key contributors to the outperformance. Continuing the trend witnessed in previous quarters, the fund benefitted from its bias towards subordinated financial bonds and underweight exposure to consumer orientated debt. The marked underweight exposure to supranational bonds and the strong preference towards secured and asset backed sectors were marginally beneficial to performance over the quarter.

h) An underweight position in index linked bonds relative to conventional government bonds and global index linked bonds added value early in the quarter as index link bonds underperformed prior to the 2068 syndication at the end of January.

i) An overweight position in index linked gilts post the syndication was beneficial following a recovery in breakeven (implied) inflation rates as the gap between RPI and CPI inflation widened

j) An underweight position in ultra-long dated bonds relative to the 20 to 30 year sector added value as the yield curve steepened prior to the 2068 index linked gilt syndication.

k) Off-benchmark positions in US, Canadian and German overseas government bonds added value as they outperformed gilts by 0.2%.

l) The fund is underweight in AAA and AA rated corporate bonds and has a large overweight position in unrated bonds. We asked Royal London for their rationale for this, they said that the AAA & AA bonds were principally Super National and Senior Banks which were underperforming. They continue their on-going inclusion of unrated bonds, which include Investment Trusts, Real Estate, Covered bonds and Structured holding, They said that these were quality holding that gave added security to the portfolio and were usually unrated as they were too small to be included in the index.

m) Royal London was asked why they increased the allocation to overseas bonds over the quarter and what the rationale was for this, and whether they expect this allocation to continue to rise in the future. They said that they were still getting better returns for the overseas bonds which were mainly in government gilts & index linked bonds, including Canada, United States and Australia. Preference for overseas bonds is expected to continue, it is a tactical manoeuvre as the overseas bonds are outperforming the UK at the moment, but this is being monitored closely and changes are made to the allocation on a day to day basis. No indication was given for any further increases in allocation.

n) Royal London was asked what impact the budget announcement on changes to the pension fund legislation had on the portfolio's strategy and performance. They said that there would be no impact on their strategies but likely to have impact on markets. Legal & General have already stopped selling annuities; investment in long dated bonds may reduce as they will have fewer buyers. Overall they think this will have a detrimental benefit, as there will be less need to buy into the market, this will affect supply/demand which could have a price impact. The sector could shrink but it is early days to make an informed opinion.

o) Royal London are also cautious on UK growth despite the recent improvement in data, they feel trend growth of 2.5% challenging. Short term interest rates remained unchanged in the UK, Eurozone, US and Japan in this quarter. Eurozone inflation fell to 0.5% in March, the lowest since November 2009. UK Gilt yields to rise modestly from current levels, government bonds still expensive at the moment reflecting rate rise expectations and further unwinding of UK safe haven status. Royal London remains positive on corporate bonds outperforming gilts by 1.5% over the next 3 years.

p) No governance or whistle blowing issues were reported.

4.2. Property (UBS)

a) In accordance with agreed procedures the Committee is not due to meet with representatives from UBS until the September meeting, a brief review of their performance as at 31 March 2014 follows:

b) The value of the fund as at 31 December 13 rose by 2.09% since the previous quarter.

c) UBS delivered a return of 3.3% matching the benchmark. The UBS portfolio is behind the benchmark over the year by - 0.4%.

d) During the quarter UBS completed a swap transaction exchanging the Rex Building in London for Worton Grange Industrial Estate in Reading. The transaction will also increase its exposure to Industrials.

e) When UBS met with the Committee in December they explained their proposals for modernising the fund with regard to the review into the structure and governance of the fund.

f) An independent review has now been completed by John Forbes, an independent real estate consultant, with the recommendations approved in principle by the Fund's General Partner, US Global Asset Management. The proposals will be submitted to the Extraordinary General Meeting (EGM) to be held on the 5 and 6 June 2014.

g) The Key proposals for modernisation are:

- Establishing an Independent Supervisory board with oversight of the fund manager and fund governance, with the ability to facilitate dialogue between unit holders and the management team.
- The modernisation of the existing redemption provisions
- Introducing clauses covering a Key Person event and a process for the removal of the manager.

h) UBS are also implementing some regulatory changes in July 2014 to comply with the requirements of the Alternative Investment Fund Managers Directive (AIFMD). These include changing the legal name of the entities responsible for the sub funds.

i) As previously reported UBS introduced a fee rebate to lower the Partnership's annual management fee from 0.75% per annum to 0.45% between 1 Jan 2013 and 31 Dec 2014 for continuing investors. Payments of rebates will be made annually at the end of each calendar year for 2013 & 2014, and will be made directly to investors. First rebate was received in February 2014.

4.3. 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. Officers met with representatives from Ruffer on the 13 February 2014 and representatives from Ruffer are due to make a presentation at this committee therefore a brief overview of their performance as at 31 March 2014 follows.

b) Members last met Ruffer in June 2013 and the value of the portfolio has increased by 1.08% since the last meeting.

c) Ruffer has underperformed the benchmark in the quarter by -0.6% (net of fees) and underperformed the benchmark in the year by -0.9% (net of fees).

4.4. 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 meeting with members was at the 17 December 2013 Pensions Committee meeting. Officers met with representatives from SSgA on the 12 May 2014 at which a review of their performance as at 31 March 14 was discussed.

b) The value of the portfolio has increased by 0.51% in the last quarter.

c) As anticipated from an index-tracking mandate, State Street performed in line with the benchmark over the latest quarter and since inception.

d) An Executive Decision was made to transfer £11,500,000 to MPF Sterling Liquidity Index sub-Fund in March 2014 pending consideration of options for an investment in Local Infrastructure. State Street was asked to look at whether they have any other cash products that we could invest in that will provide a better return than the Liquidity Fund. Members will be updated once we have considered any options that State Street has to offer.

e) SSgA reported on the changes of the incremental revenue from stock lending split, effective from 1st January 2014, from 60% Fund 40% State Street to 70% Fund 30% State Street. These are incremental returns on performance; the changes were introduced to keep cost down to a bare minimum.

f) SSgA mentioned that they are looking at ways of enhancing returns in Index Equity Portfolio management. The opportunities that are available are options for the portfolio to track different indices that may deliver better returns. Officers in conjunction with the fund's investment adviser will consider the options available and report back to the Committee, as appropriate.

g) No governance or whistle blowing issues were reported.

4.5. Global Equities Manager (Baillie Gifford)

a) Representatives from Baillie Gifford on the Global Alpha Fund are due to make a presentation at this Committee therefore a brief overview of their performance as at 31 March 2014 follows.

b) Baillie Gifford have outperformed the benchmark over the quarter by 1.5% (net of fees) and outperformed the benchmark by 6.0% (net of fees) over the last year. Since inception they have outperformed the benchmark by 4.6%.

c) Since the last quarter the portfolio increased in value by 2.06%.

4.6. Multi Asset Manager (Baillie Gifford Diversified Growth Fund)

a) Representatives from Baillie Gifford on the Diversified Growth Fund (DGF) are due to make a presentation at this committee therefore a brief overview of their performance as at 31 March 2014 follows. This will be their first presentation to this committee since their appointment in November 2013.

b) Baillie Gifford have underperformed their benchmark by -0.3% over the quarter (net of fees) and underperformed the benchmark by -0.1% (net of fees) since inception.

c) Since the last quarter the portfolio increased in value by 0.70%.

4.7. Multi Asset Manager (Barings – Dynamic Asset Allocation Fund))

a) In accordance with agreed procedures officers will only meet with representatives from Barings once in the year with the other meeting to be held with members. Barings will be meeting with members in December 2014 but had their first meeting with officers on the 12 May 2014, at which a review of their performance as at 31 March 14 was discussed.

b) Barings commenced trading in December 2013.

c) The value of the fund as increased in value by 0.41% since the initial in December 2013.

d) Barings target cash+4% returns within 70% equity risk. They focus on dynamic asset allocation, diversifying in different ways at different times, using external Managers where appropriate.

e) Barings Dynamic Asset Allocation Fund returned -0.5%, underperforming the investment objective of LIBOR+4% by 1.6%. Since inception, the fund is behind the investment objective with a relative return of -1.0%.

f) The main detractors from performance over the quarter were significant weightings in Japanese and UK equities, both lagged behind other equity markets. Stock selection was also a slight negative over the quarter although fixed income assets added value over the same period. In particular high yield, convertible and US government bonds all performed well.

g) Over the quarter Barings reduced the allocation in cash and increased allocations to equities, mainly in United States, Japan and Taiwan equities. Barings also added to UK corporate and emerging market bonds. They also bought a basket of global mining stock and switched US index-linked bonds into conventional bonds.

h) They sold holdings in Australia and added to UK corporate bonds as well as emerging market bonds, however within the emerging markets bonds they sold the exposure to Russian government bonds early in the Crimean crisis.

i) Given that emerging markets have underperformed developed markets by around 40% over the last 18months or so, Barings were asked what they see as the main barriers to reverse this position. They said that the western recovery has been slower than anticipated, affecting emerging markets such as Korea and Taiwan, slowdown in western manufacturing has reflected in a decrease in export from these markets for small components manufactured in these countries for the developed markets commodities. As they expect developed markets recovery to gain pace this year this should improve emerging markets performance, which is our reasoning for increasing our holding in these areas.

j) We asked Barings, how do they expect the economic climate to impact asset allocation over the next 12 months? And to what extent are policy decisions likely to impact on expected returns. They said that the main implication from their analysis of the economic climate is that the primary asset for this point in the economic cycle is to remain in equities, expecting the improving economic recovery to be positive for corporate profit, but not strong enough to trigger a sudden move towards higher monetary policy by the world's central banks. However as data flow will not be even, weak patches will follow stronger patches, and so equities markets will have strong spurts followed by setback as investors fret about early moves on the interest front, Barings will remain vigilant to these movements. In the present environment they expect the bond yield spreads to be lower, and for the time being, they also favour Developed Markets, and a more cautious approach to emerging markets, which although cheaper, are still suffering from high political risk and declining economic momentum.

k) No governance or whistle blowing issues were reported.

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 will be distributed to members electronically.

2. Receive quarterly information from the Investment Managers, detailing new Investments made.

   - Points 1 and 2 are contained in the Managers' reports.

3. Voting – Where the fund does not hold a pooled equity holding, Members should select a sample of the votes cast from the voting list supplied by the managers (currently only Ruffer) 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 manager attending the meeting will be from:

  Baillie Gifford – Pooled Global Equity Fund
  Baillie Gifford – Diversified Growth Fund (Multi-asset)
  Ruffer – Absolute Return Fund (Multi asset)

- 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 31 Mar 2014
Royal London Quarterly report to 31 Mar 2014
UBS Quarterly report to 31 Mar 2014
Ruffer Quarterly reports 31 Mar 2014
State Street Global Assets reports to 31 Mar 2014
Barings Quarterly Reports 31 Mar 2014
Baillie Gifford Quarterly Reports 31 Mar 2014
The WM Company Performance Review Report to 31 Mar 2014
Hyman's Monitoring Report to 31 Mar 2014

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 9

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Agenda Item 10

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Agenda Item 11

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