



Haverling

LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.30 pm

**Tuesday
16 December 2014**

**Town Hall, Main Road,
Romford**

Members 7: Quorum 3

COUNCILLORS:

**Conservative
(3)**

John Crowder
(Chairman)
Melvin Wallace
Roger Westwood

**Residents'
(2)**

John Mylod
Stephanie Nunn

**East Haverling
Residents'
1**

Clarence Barrett

**UKIP
(1)**

David Johnson (Vice-
Chair)

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

**Admitted/Scheduled Bodies
Representative**

(Voting Rights) (1)

Heather Foster-Byron

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

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

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 November 2014 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2014

(Pages 7 - 20)

To consider the attached report.

6 ESTIMATED DEVELOPMENT OF THE FUNDING POSITION FROM 31 MARCH 2013 TO 30 SEPTEMBER 2014 (Pages 21 - 36)

To receive the attached report.

7 URGENT BUSINESS

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

8 EXCLUSION OF THE PUBLIC

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

9 REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 30 SEPTEMBER 2014.

10 PRESENTATION FROM BAILLIE GIFFORD.

**Andrew Beesley
Committee Administration
Manager**

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3B - Town Hall
25 November 2014 (7.30 - 8.05 pm)**

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman), Melvin Wallace and Roger Westwood

Residents' Group Stephanie Nunn

**East Havering
Residents' Group** Clarence Barrett

UKIP Group David Johnson (Vice-Chair)

Trade Union Observers John Giles (UNISON) and +Chris Pearson (GMB)

Apologies were received for the absence of Councillor John Mylod and +Andy Hampshire (GMB) and Heather Foster-Byron.

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

15 MINUTES OF THE MEETING

The Minutes of the meeting of the Committee held on 23 September, 2014 and of the Special Meeting held on 23 October, 2014 were agreed as correct and signed by the Chairman.

16 REVIEW OF PENSION FUND CUSTODIAN

The Committee were advised that officers had undertaken their annual review of the performance of the Pension Custodian, State Street for the period October 2013 to September 2014. State Street had been appointed Custodian from 31 December 2004 and would undertake the role until terminated by either party.

State Street operate a wide range of functions,. These fall into two main categories:

- Safe Keeping and Custody
- Investment Accounting and Reporting.
- **Safe Keeping and Custody**
This referred to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend

income and other distributions were received appropriately. The Custodian also managed the tax position of the fund, claiming back any recoverable overseas withholding tax paid on dividends received and maintaining the tax records of the fund.

- **Investment Accounting and Reporting**

State Street produced accounting reports that were similar to those produced by the fund's investment managers. They kept a record of the book costs and the holdings in the various asset classes and also provided an independent market valuation of the fund. This was done for each of the investment managers' portfolio as well as at the total fund level. State Street records were, therefore, considered to be master records and these records were used for producing the accounts. Reports currently produced by State Street were in a format that could be used by the pension Fund to comply with the International Financial Reporting Standards (IFRS).

Services were reviewed to ensure that the Pension Fund was receiving best value for money and was benefiting from all the services the custodian had to offer and a new fee structure became operational from 1 August 2011.

Officers advised that the receipt of invoices was irregular which was why the cost of the service shown in the report only the period up to 30 June 2014. The other area of concern was that State Street whilst improving the timeliness of their data, could only deliver audited data following the receipt of reports at month end. This did not comply with the Office of National Statistics (ONS) deadlines. This had not caused any problems with the ONS.

The Committee **noted** the report.

17 **REVIEW OF INVESTMENT ADVISOR**

Officers advised the Committee that they had reviewed the performance of the fund's Investment Advisor, Hymans Robertson, covering the period September 2013 to September 2104.

Myner's Principle number 2 clear objectives, recommended that the Pensions Committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition. Hymans Robertson had originally been appointed in April 2006 and were re-appointed in December, 2011 and took up the new contract from 1 April, 2012. The contract was to run till 31st March, 2017 unless terminated or extended by the Council in accordance with the contract.

The Committee had adopted the procedure to undertake an annual assessment of the Investment Advisor performance, which was in line with Myner's Principle number 4 on performance measurement.

A set of criteria had been defined as part of the investment advice tender specification and these were outlined below:

- Attendance at Committee Meetings;
- Investment Advice;
 - Setting Investment Strategy
 - Investment Management structure
 - Appointing an investment Manager
 - Monitoring an investment Manager
 - Other responsibilities (advising on statement of investment principles, custody, setting investment guidelines etc.)
- The value they will/could add to the decision making process;
- The level of Pro-Activity expected from the adviser;
- Support arrangements.

In addition within the tender documentation officers had selected other criteria which the advisors should be assessed against, as they were essential in a service such as investment advice. as:

- Communications and advice was clear, timely, accurate, challenging and comprehensive;
- Provision of advice to officers and members included comprehensive options and was encouraged to test the alternatives to decisions being made; and
- A partnership approach to reaching investment decisions.

The Committee **noted** that the officers were satisfied with the service provided by Hymans Robertson and had continued confidence in the advice being given.

18 **WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT**

Officers informed the Committee that since April 2005 when the whistle blowing requirements of the Pensions Act 2004 came into force nearly everyone connected with running a pension scheme, in particular administering authorities and employers had a duty to give a written report as 'soon as reasonably practical' to the Pensions Regulator where they had 'reasonable cause to believe' that there had been a breach of law 'relevant to the administration of the scheme' which was 'likely to be of material significance to the Regulator'.

Since the requirements came into force there had been no reported breaches.

The Committee considered the report and noted that no breaches had been reported, and the advice of legal services that 'The procedures adopted appear robust and as there had been no matters reported there was a low

risk that the whistleblowing provisions had been breached and therefore there were no apparent risks in noting the annual review.

19 REVIEW OF GOVERNANCE COMPLIANCE STATEMENT

In accordance with the Local Government Pensions Scheme Regulations (LGPS) 2013, Regulation 55(2), the London Borough of Havering, as an administering authority, had a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.

The Committee had considered whether or not to employ the services of an independent professional observer to participate in the governance arrangements. The Committee have **decided against** it on the basis that the current monitoring arrangements were sufficient for the size of the fund.

Officers had advised that under Regulation 55 (1) (d) the Administering Authority was required to prepare a written statement setting out the details of the terms, structure and operational procedures relating to the local pension board established under regulation 53 (4) (Scheme managers). A working party had been established and was currently in the process of planning the creation of a local pension board for the Havering Pension Fund. Regulations stated that the local pension board must be established by no later than the 1 April 2015. Officers would present a report to the Governance Committee on the 11 March 2015 and then the Council meeting on the 25 March 2015 to establish the local pension board. Once this had been completed the Governance Compliance Statement would be further updated to be compliant with this regulation.

The Committee have noted the report.

20 PENSION FUND ANNUAL REPORT - YEAR ENDED 31 MARCH 2014

Each year the Committee were required to produce and publish an Annual Report in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013. Officers had produced the report which contained the following:

- a) Management and Financial Report;
- b) Investment Policy and Performance Report;
- c) Scheme Administration Report;
- d) Actuarial Statement;
- e) Current version of the Governance Compliance Statement;
- f) Fund Account and Net Asset Statement (including Audit opinion);
- g) Levels of performance set out in a Pensions Administration Strategy;
- h) Current version of Funding Strategy Statement;
- i) Current version of Statement of Investment Principles;
- j) Current version of Communication Strategy; and
- k) Any Other Material.


Officers confirmed that the Annual Report had been prepared in line with the latest guidance issued by the Department of Communities and Local Government and having regard to the updated CIPFA/PRAG guidance issued in August 2014.

The Committee:

1. **Agreed** the 2013/14 Pension Fund Annual Report;
2. **Agreed** that the Pension Fund Annual Report should be published electronically; and
3. **Authorised** the Chairman of the Pensions Committee and the Director of Communities and Resources to conclude and sign the annual report.

Chairman

This page is intentionally left blank

	Havering <small>LONDON BOROUGH</small>
<h2 style="margin: 0;">PENSIONS COMMITTEE</h2> <p style="margin: 0;">16 December 2014</p>	

Subject Heading:	PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 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 30 Sept 2014

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 provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 September 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 30 September 2014 was **2.7%**. This represents an outperformance of **0.2%** against the tactical benchmark and an under performance of **-4.7%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 Sept 2014 was **8.6%**. This represents a performance in line with the tactical combined benchmark and an under performance of **-5.2%** 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 Ballie Gifford for their Diversified Growth Fund and Global Alpha Fund.
- 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:

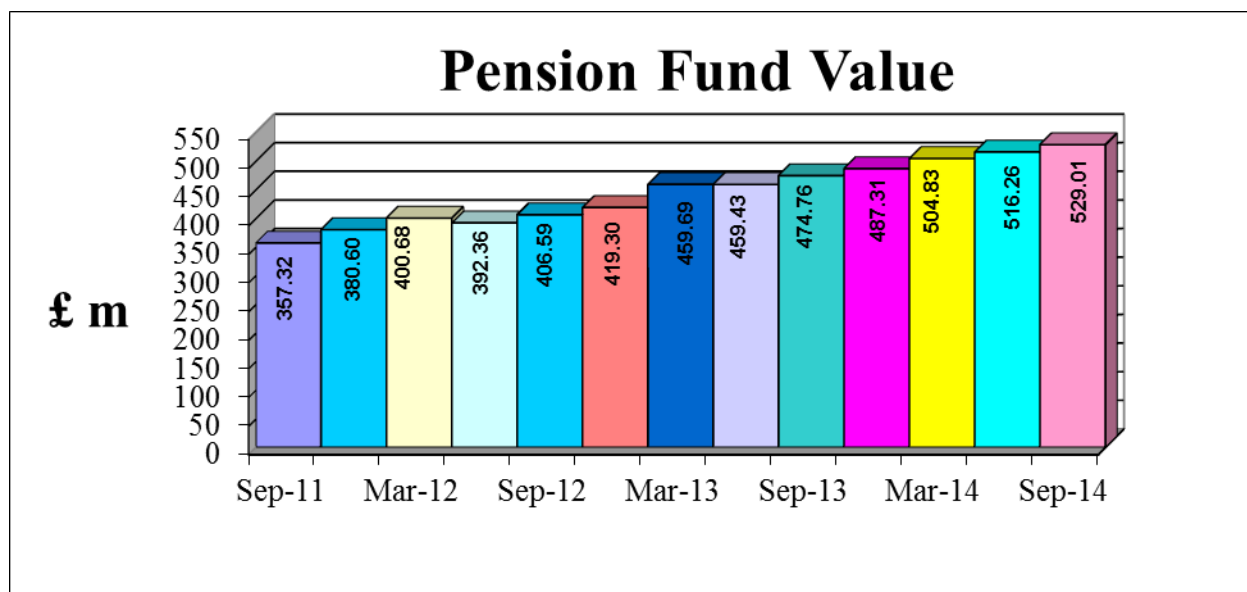
Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
State Street Global Assets (SSgA) 8%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford 17%	Global Equities - Active	MSCI AC World Index	1.5 – 2.5% over rolling 5 year period
Royal London Asset Management 20%	Investment Grade Bonds	<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 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

Pensions Committee, 16 December 2014

- 1.6 At a Special meeting of the Pension Committee on the 23 October 2014 members agreed to appoint GMO and invest in their Global Real Return (UCITS) Fund (GRRUF). Officers are in the process of completing the relevant documentation and cash will be transferred from the SSgA Sterling Liquidity cash account once this has been completed and verified. This will be managed on a pooled basis. The GMO (GRRUF) will replace the investment with Barings.
- 1.7 UBS, SSgA, Baillie Gifford 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.
- 1.8 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).
- 1.9 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 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.
- 1.10 Hyman's performance monitoring report is attached at **Appendix A**.

2. Fund Size

- 2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 Sept 2014 was **£529.01m**. 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 £516.25m at the 30 June 2014; an **increase of £12.76m**. The movement in the fund value is attributable to an increase in assets of £14.11m and a decrease in cash of £1.35m. The internally managed cash level stands at **£5.38m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£5.38** follows:

<u>CASH ANALYSIS</u>	<u>2012/13</u>	<u>2013/14 Updated</u>	<u>2014/15 30 Sep 14</u>
	£000's	£000's	£000's
Balance B/F	-1194	-3474	-5661
Benefits Paid	31272	32552	17000
Management costs	1779	2312	268
Net Transfer Values	-1284	-1131	60
Employee/Employer Contributions	-30222	-45659	-18393
Cash from/to Managers/Other Adj.	-3780	9825	1368
Internal Interest	-45	-86	-24
Movement in Year	-2280	-2187	279
Balance C/F	-3474	-5661	-5382

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 30.09.14	12 Months to 30.09.14	3 Years to 30.09.14	5 years to 30.09.14
Fund	2.7%	8.6%	12.9%	8.9%
Benchmark return	2.5%	8.5%	11.0%	9.0%
*Difference in return	0.2%	0.0%	1.7%	-0.1%

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 30.09.14	12 Months to 30.09.14	3 Years to 30.09.14	5 years to 30.09.14
Fund	2.7%	8.6%	12.9%	8.9%
Benchmark return	7.8%	14.5%	9.3%	10.6%
*Difference in return	-4.7%	-5.2%	3.3%	-1.6%

Source: WM Company

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

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

QUARTERLY PERFORMANCE (AS AT 30 SEPTEMBER 2014)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	5.26	5.46	-0.20	5.65	-0.39
UBS	4.13	4.03	0.10	n/a	n/a
Ruffer	2.93	0.10	2.83	n/a	n/a
SSgA	3.18	3.18	0.0	n/a	n/a
SSgA Sterling Liquidity Fund	0.13	0.09	0.04	n/a	n/a
Baillie Gifford (Global Alpha Fund)	2.00	3.20	-1.20	n/a	n/a
Barings (DAAF)	1.00	0.07	0.30	n/a	n/a
Baillie Gifford (DGF)	1.70	1.00	0.70	n/a	n/a

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Barings up to 29 August 2014

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	11.47	10.59	0.88	11.34	0.13
UBS	19.48	16.85	2.63	n/a	n/a
Ruffer	3.71	0.50	3.21	n/a	n/a
SSgA	11.70	11.74	-0.04	n/a	n/a
SSgA Sterling Liquidity Fund	0.48	0.35	0.13	n/a	n/a
Baillie Gifford (Global Alpha Fund)	9.80	11.80	-2.00	14.30	-4.50
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 05 November 2014 at which a review of their performance as at 30 September 14 was discussed.
- b) The Royal London portfolio fund saw an increase in value of 5.3% since the previous quarter.
- c) Royal London delivered a return of 5.26% during the quarter and underperformed the benchmark by -0.20% and the target by -0.39%. Since inception they outperformed the benchmark by 0.76% and the target by -0.05%.
- d) Royal London reported on market events during the quarter:
 - Government Bonds (Gilts) returned 3.73% over the quarter, due to flight to quality following escalating geopolitical tensions, European Central Bank introducing measures to stimulate the Eurozone economy and the Scottish referendum creating additional volatility. Along with the UK economy continuing to improve, consumer confidence remained well above pre crisis average. Quarter 3 GDP 0.7% bringing year on growth to 3%.
 - Index linked Market backdrop – Index linked gilts returned 5.32% over the quarter, real yields fell to a record low. UK inflation remains below

target, partly reflecting the intensifying supermarket price war. The European Central Bank cut interest rates. The Global index linked bond performance was mixed, with the UK outperforming the US and Canada, but underperformed Europe.

- Credit market backdrop (corporate bonds) – The credit bonds underperformed gilts. Issuance was at its lowest level for the year to date. Credit remains undervalued versus government bonds.
- e) Asset Allocation within the portfolio was 56.5% in corporate bonds, 27.8% Sterling Index Linked bonds, 10.6% Sterling conventional Bonds, 3.8% in Overseas Bonds and 1.3% in cash.
- f) There has been little portfolio changes during the 3rd quarter, Portfolio activity and opportunities during the quarter are as follows:
- Active duration management. Expected UK government bond yields to rise moderately towards their year-end forecast. Overall short duration maintained throughout quarter three. Long dated index linked bonds were sold as yields reached record lows in August. Short duration reduced in to Scottish referendum as fears of 'Yes' vote grew.
 - Off-benchmark positions in US and Canadian index linked government bonds, as yields significantly higher than the UK.
 - Continued opportunities created by on-going market volatility. Overweight ultra-long bonds as they are not expected to be supplied again in 2014.
 - New credit bond Issues, activity subdued in quarter three as issuance considerably lower, They purchased A+/A2 rated, 12 year transaction from charity Motability.
- g) The fund was overweight in corporate bonds relative to government bonds, with a bias towards benefiting from enhanced security, showing significant overweight in structured and secured sectors (investment trust, property and social housing). It is overweight in financials, with a preference for subordinated debt and senior secured bank bonds over senior unsecured debt, with significant underweighting to supranational and government bonds.
- h) Asset Allocation in favour of corporate bonds was a key detractor over the quarter. Off benchmark positions in overseas bonds were a small benefit to performance.
- i) Royal London was asked given the continuing strong performance in absolute terms, should the Fund be reducing its overall allocation to bonds? They said that equity will not be introduced into the portfolio, they will continue with selective purchasing rather than changes in strategies.
- j) Royal London was asked if they still expect interest rates to rise or do they hold the belief that rates will remain lower for longer? Previously they expected interest rates rises in Feb/Mar 15, but this view has moved out to June to July (after the election) gradually rising quarter on quarter

in small increments up to 2% by the middle of 2016. Their view is influenced by the increased growth in the UK economy with lower unemployment. The only detraction from this is the lower than expected wage growth and inflation in recent months which may delay rate rises. They said that the economy is sensitive to small changes in interest rates.

- k) We asked what they see as the key risks to achieving your outperformance target over the next 12 to 18 months. They said that the 2 main risks to absolute returns are if inflation grows and yields rise (prices will fall), and if financials reduce, they have a higher weighting to financials; they will need to move investments in credit.
- l) The Royal London Investment outlook is to remain cautious on the outlook for medium term global growth; deleveraging process will take several years. Central case assumes modest reacceleration of global activity over the coming year. They expect UK gilt yields to rise from current levels, and remain positive on corporate relative to government/supranational bonds.
- m) No governance or whistle blowing issues were reported.

4.2. Property (UBS)

- a) In accordance with agreed procedures officers met with representatives from UBS on the 05 November 2014 at which a review of their performance as at 30 September 14 was discussed.
- b) The value of the fund as at 30 September 14 rose by 2.62% since the previous quarter.
- c) UBS delivered a return of 4.1% over the quarter, outperforming its benchmark by 0.1%. The Fund is ahead of the benchmark over the year by 2.3%. Since inception UBS are behind their benchmark by -0.2%.
- d) The number of properties in the fund currently stands at 29 and a void rate of 8.13%, which is lower than the benchmark of 10.1%. Average property yield is currently 6.32%.
- e) As at the date of the meeting there is no redemption queue.
- f) UBS stated that the modernisation of the fund in 2014 has strengthened governance and improved the Funds liquidity and redemption.
- g) The new Independent Supervisory Board has been established and provides oversight of the Managers and Fund governance, with the ability to facilitate dialogue between investors and the management team. The board comprises three individuals independent of UBS and investors. Initial members are John Forbes, Sue Forster and Michael Strancombe. Members will be rotated and elected annually. UBS said that although it was early days, the new board was working well.

Pensions Committee, 16 December 2014

- h) UBS achieved the Global Real Estate Sustainability Benchmark (GRESB) “Green Star” status in 2014 and ranks strongly amongst its peers.
- i) UBS Triton’s sustainability strategy is now embedded in the fund investment process. The benefits from this award include tax breaks, and lower energy costs, which make them more attractive to tenants and buyers when selling.
- j) Three sales were completed over in the year to date, two shopping centres, one in Birmingham and one in Newport and an office block in London that was swapped for an industrial estate in Reading.
- k) UBS has purchased 2 new properties, both are industrial units. The first is a multi-let industrial estate in Reading, at no cost to the fund, by securing a sale price of the Rex building in London at 6% above valuation. The second is in Hatfield, which is a state of the arts building with a long lease until June 2028.
- l) Although the Supervisory Board has been a fairly recent governance change and only met for the first time in October, we asked UBS if this has borne any immediate benefit for their management of the fund. They said that since the board has in place they have been through a thorough review process which they have passed with flying colours, but it is too early to see immediate benefits.
- m) We asked UBS what they perceive to be the attractions of investment in private rented sector residential property. They said that they are actively looking at residential properties for rental to students. In the right location these properties have a good sustainable rental income, with very low voids, with relatively low risks.
- n) Recent transactions have been in line with UBS’s stated strategy but, given current market conditions, we asked what other changes to your strategy are you considering at this time? They do not plan any major changes to their current strategy, other than the investment into residential property for rental to students as previously mentioned.
- o) No whistle blowing issues or governance was reported.

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. The Pensions Committee last met with Ruffer at the June 2014 meeting at which their performance as at the end of March 14 was discussed. Officers will meet with representatives from Ruffer in February 2015. An overview of their performance as at 30 Sept 2014 follows.
- b) Since the June 14 quarter end the value of the portfolio has increased by 3.16%.

- c) Ruffer has outperformed the benchmark in the quarter by 2.83% (net of fees) and outperformed the benchmark in the year by 3.21% (net of fees).
- d) Portfolio had a good quarter as they benefitted from the turnaround in the US dollar that more than reversed its losses earlier in the year and made further gains in long-dated UK Index linked bonds. Main detractor on performance came from Gold as this fell back as the dollar surged and commodity prices fell.

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 are next due to meet the committee in March 2015. Officers last met with representatives from SSgA on the 12 May 2014 at which a review of their performance as at 31 March 14 was discussed. An overview of their performance as at 30 Sept 2014 follows.
- b) Following the redemption of the Baring's mandate £100.6m was transferred to the SSGA Sterling Liquidity Fund. Now that a replacement Fund Manager has been appointed this money will be transferred out once all the relevant documentation has been completed.
- c) Pending consideration of options for an investment in Local Infrastructure the £11.5m is still invested in the SSGA Sterling Liquidity Fund.
- d) The SSgA Sterling liquidity fund has outperformed the benchmark by 0.04% over the quarter.
- e) The SSgA passive Equity mandate has performed in line with the benchmark over the latest quarter and since inception.
- 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.

4.5. Global Equities Manager (Baillie Gifford)

- a) Representatives from Baillie Gifford are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 September 2014 follows:
- b) Since the last quarter the portfolio increased in value by 2.0%.
- c) Baillie Gifford underperformed the benchmark over the quarter by -1.20% (net of fees) and underperformed the benchmark by -2.0% (net of fees) over the last year. Since inception they have outperformed the benchmark by 1.6%.

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

- a) Representatives from Baillie Gifford are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 September 2014 follows:
- b) Since the last quarter the portfolio increased in value by 1.7%.
- c) Baillie Gifford outperformed their benchmark by 0.70% over the quarter (net of fees).

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

- a) As reported in the last Quarterly monitoring report the mandate with Barings was terminated on the 29 August 2014. The redemption value was £100.6m and the cash was invested in the SSgA Sterling liquidity fund on the 4 September 2014, pending transfer to the new Fund Manager.

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

- 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 Sept 2014
Royal London Quarterly report to 30 Sept 2014
UBS Quarterly report to 30 Sept 2014
Ruffer Quarterly reports 30 Sept 2014
State Street Global Assets reports to 30 Sept 2014
Barings Quarterly Reports 30 Sept 2014
Baillie Gifford Quarterly Reports 30 Sept 2014
The WM Company Performance Review Report to 30 Sept 2014
Hyman's Monitoring Report to 30 Sept 2014

This page is intentionally left blank



Havering

LONDON BOROUGH

PENSIONS COMMITTEE

16 December 2014

Subject Heading:	ESTIMATED DEVELOPMENT OF THE FUNDING POSITION FROM 31 MARCH 2013 TO 30 SEPTEMBER 2014
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 Interim Valuation in line with funding Strategy Statement
Financial summary:	None directly as the report comments on the Pension Fund interim valuations since the last formal valuation in 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 a report from the Fund's Actuary Hymans Robertson to illustrate the estimated development of the Pension Fund's funding position from 31 March 2013 to 30 September 2014.

RECOMMENDATIONS

That the Committee note the following:

1. The Havering Pension Fund interim funding position update to 30 September 2014.
2. No action is required to change the funding plan.

REPORT DETAIL

1. Background

- 1.1 In line with Local Government Pension Scheme 2013, the Fund's actuary carried out a triennial valuation as at 31 March 2013. The main purpose of the valuation is to estimate on-going employer liabilities, evaluate this against the funds' assets and calculate the funding position within the fund. This is then used to set future employer contribution rates. The next valuation will be undertaken as at March 2016.
- 1.2 In line with the Funding Strategy Statement (FSS) the Administering Authority states that it will monitor the relative funding position, i.e. changes in the relationship between asset values and the liabilities value annually and to report this to the regular Pensions Committee meetings. Hymans was asked to provide Members with a report to illustrate the estimated development of the Pension Fund's funding position from 31 March 2013 to 30 September 2014, which is the mid waypoint between the valuations.
- 1.3 Hymans report looks at the whole fund position and does not allow for the circumstances of individual employers. Differences in the relationship between the ratio of accrued liabilities and the payroll can have a large influence on changes in contributions.
- 1.4 Employer contributions will not be reviewed until the next valuation as at 31 March 2016. The purpose of the funding update was to assess whether the funding plan is on track and take actions where necessary.

2.Key items form the report

2.1 The funding level at the last formal valuation was 61.2%. As at 30 September 2014 the funding level has increased to 66.8%. This is largely as a result of higher than expected investment returns and an additional cash contribution paid into the fund by the Council in March 2014 principally in relation to the creation of a Local Infrastructure fund). See following table:

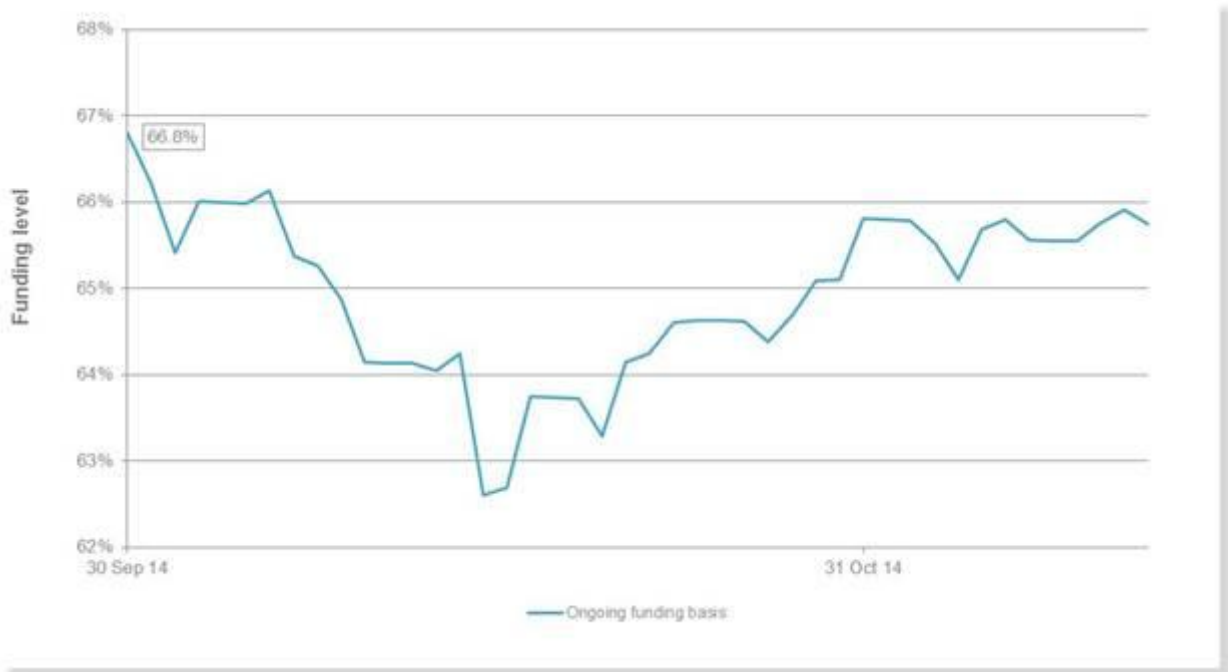
Ongoing funding basis	31 Mar 2013	30 Sep 14
	£m	£m
Assets	461	529
Liabilities	752	792
Surplus/(deficit)	(292)	(263)
Funding level	61.2%	66.8%

IMPLICATIONS AND RISKS

Financial Implications and risks:

The assumptions used to estimate the financial position as at 30 September 2014 are the same used for the Valuation as at 31 march 2013 but have been updated to market conditions. The funding update does not allow for changes in individual members' data since the last valuation.

However volatility in the in investment performance can have an immediate effect on the funding level and is a key risk of ensuring solvency of the fund going forward. As shown in the Hymans chart below the funding level fell by 5% in the couple of weeks following the end of September although it has since recovered much of that loss. The Pension Fund is seeking to achieve an improvement in the funding ratio over the longer term, typically twenty years as reflected in the actuarial valuation report. Short term volatility in investment performance may shift the Committees attention from time to time but it will be important to remain focussed on the longer term objectives and strategy.



Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

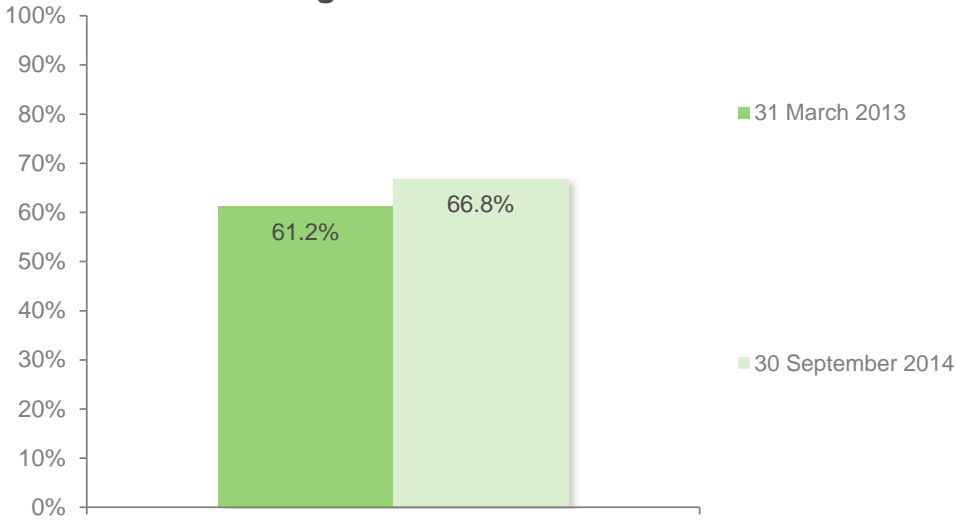
None arising directly

BACKGROUND PAPERS

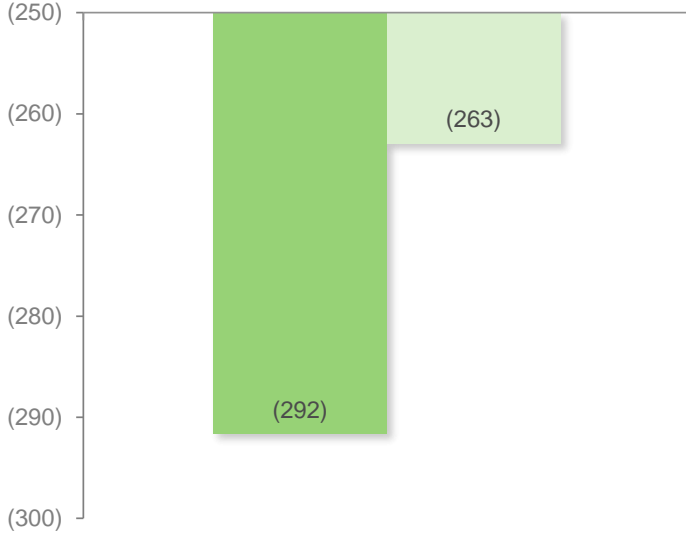
Hymans navigator report as at 30 September 2014

Funding update as at 30 September 2014 London Borough of Havering Pension Fund

Funding level



Surplus/(deficit) - £m



Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2013 to 30 September 2014, for the London Borough of Havering Pension Fund ("the Fund"). It is addressed to London Borough of Havering in its capacity as the Administering Authority of the London Borough of Havering Pension Fund and has been prepared in my capacity as your actuarial adviser.

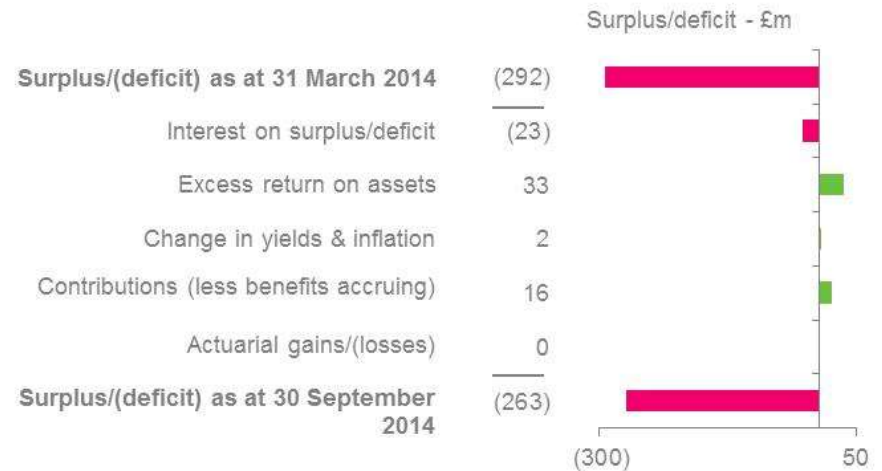
The funding level at the latest formal valuation was 61.2%. As at 30 September 2014 the funding level has increased to 66.8%. This is largely as a result of higher than expected investment returns and an additional cash contribution paid into the Fund by the Council in March 2014.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

This report looks at the whole fund position and does not allow for the circumstances of individual employers. The results for individual employers can be quite different to the fund as a whole depending on their own experience and the profile of their liabilities. Differences in the relationship between the ratio of accrued liabilities and the payroll can have a large influence on changes in contributions.

Steven Law FFA

What's happened since the last update – ongoing funding basis



Differences between this funding update and a full actuarial valuation

The accuracy of this type of funding update calculation is expected to decline over time as the period since the last valuation increases. This is because this funding update does not allow for changes in individual members' data since the last valuation.

Details of the approach used in this funding update are given in the appendix.

The figures in tables throughout this document may not add up due to rounding.

HYMANS ROBERTSON LLP

Estimated financial position at 30 September 2014

Ongoing funding basis

£m	31 Mar 2013	31 Mar 2014	30 Sep 2014
Assets	461	499	529
Liabilities	752	746	792
Surplus/(deficit)	(292)	(247)	(263)
Funding level	61.2%	66.9%	66.8%

Gilts funding basis

£m	31 Mar 2013	31 Mar 2014	30 Sep 2014
Assets	461	499	529
Liabilities	1,028	1,010	1,081
Surplus/(deficit)	(567)	(511)	(552)
Funding level	44.8%	49.4%	48.9%

Basis summary

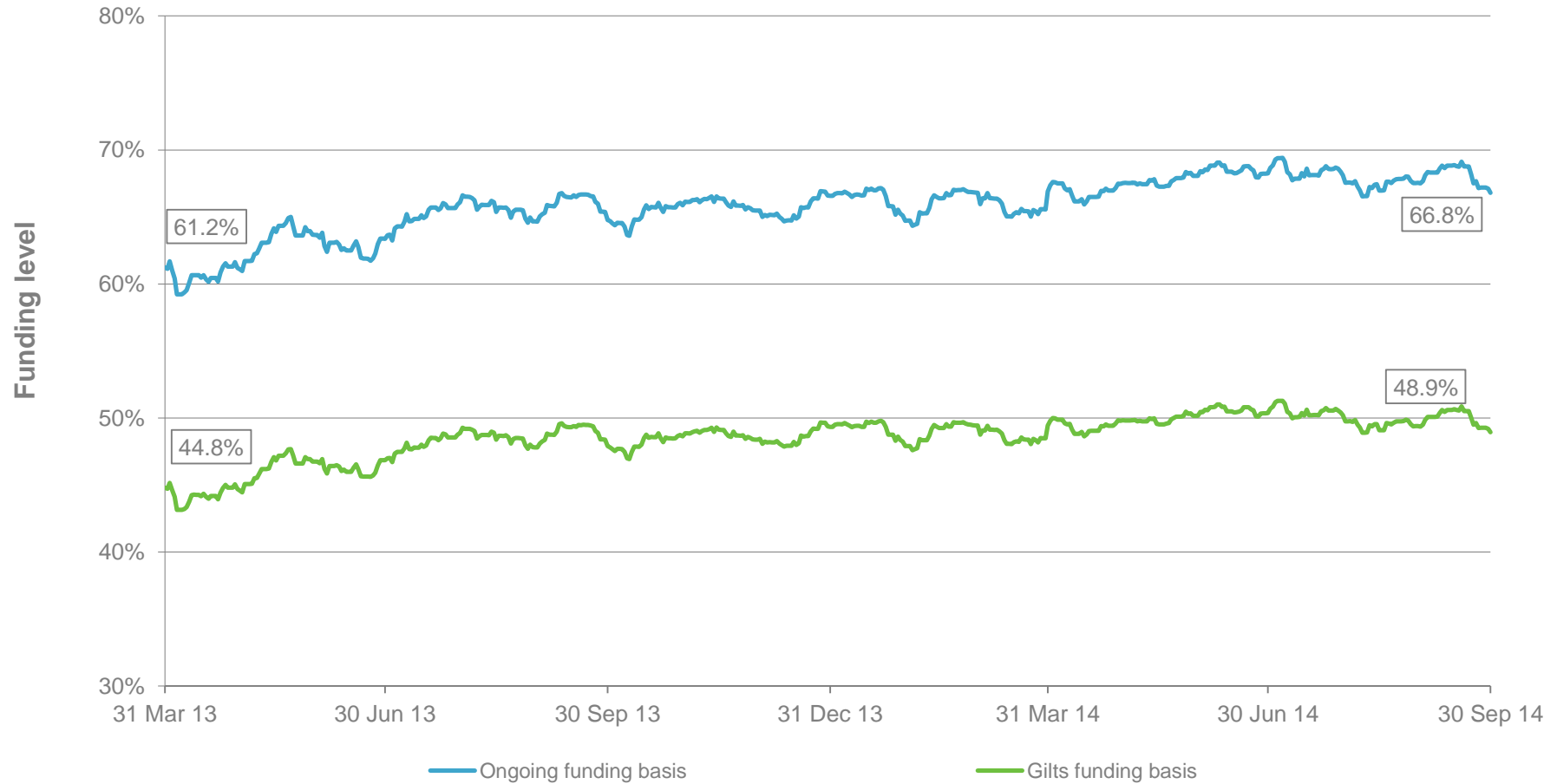
	31 Mar 2013	30 Sep 2014
Pre retirement discount rate		
Nominal	4.8%	4.8%
Real	1.5%	1.5%
Post retirement discount rate		
Nominal	4.8%	4.8%
Real	1.5%	1.5%
Salary increase rate	3.3%	3.3%

The assumptions underlying the funding bases are set out in the Funding Strategy Statement. They are those set for the 2013 valuation of the Fund updated for market conditions as at the calculation date.

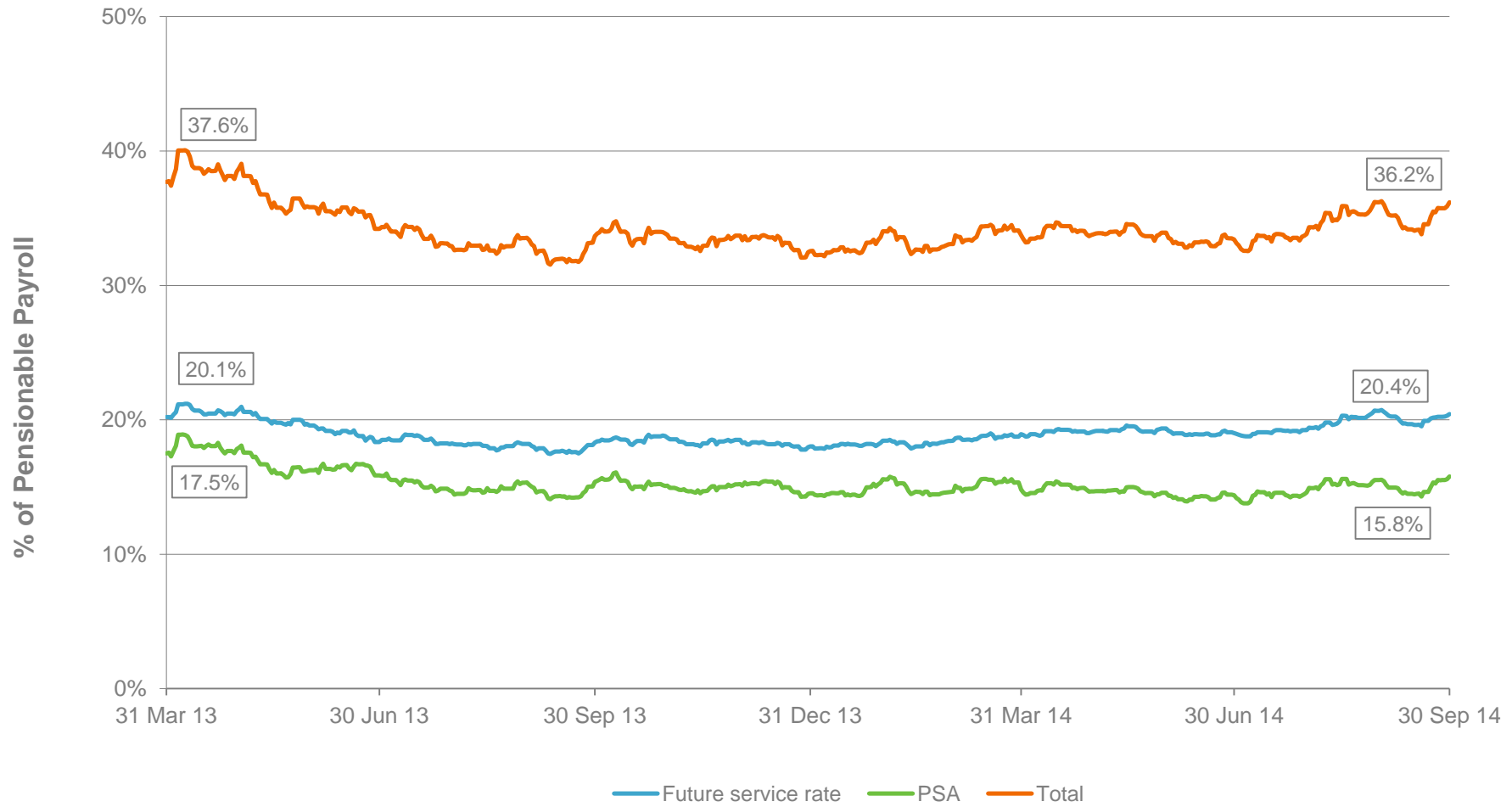
Market indicators

	31 Mar 2013	30 Sep 2014
Market yields (p.a.)		
Fixed interest gilts	3.04%	3.00%
Index linked gilts	-0.27%	-0.32%
Implied inflation (RPI)	3.33%	3.34%
Implied inflation (CPI)	2.55%	2.56%
AA corporate bonds	4.07%	3.84%
AA spread	1.03%	0.83%
AOA	1.80%	1.80%
Price indices		
FTSE All Share	3,381	3,534
FTSE 100	6,412	6,623

Change in funding level since last valuation



Change in contribution rate



What's happened since last valuation? – ongoing funding basis

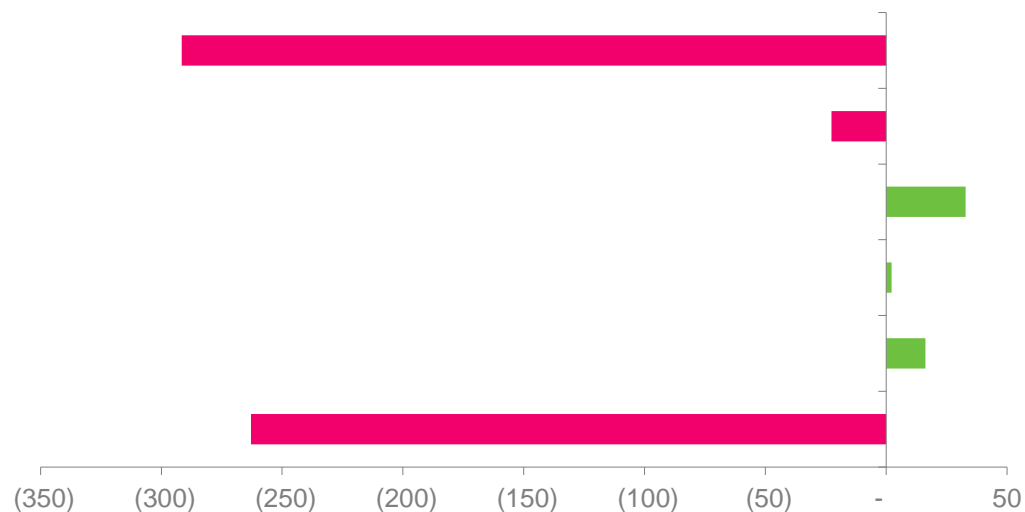
Assets	£m
Asset value as at 31 March 2013	461
Contributions paid in:	52
Benefit payments:	(50)
Expected return on assets:	34
Excess return on assets:	33
Asset value as at 30 September 2014	529

Liabilities	£m
Liability value as at 31 March 2013	752
Cost of benefits accruing:	36
Interest on liabilities:	57
Change in yields & inflation:	(2)
Benefit payments:	(50)
Liability value as at 30 September 2014	792

Overall effect

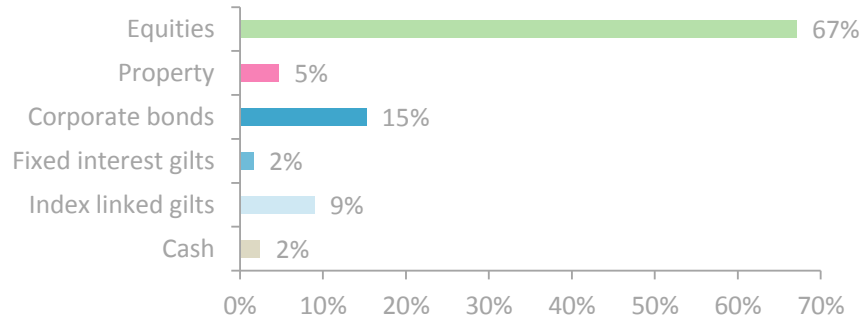
Surplus/(deficit) as at 31 March 2013	(292)
Interest on surplus/deficit	(23)
Excess return on assets	33
Change in yields & inflation	2
Contributions (less benefits accruing)	16
Surplus/(deficit) as at 30 September 2014	(263)

Surplus/deficit - £m

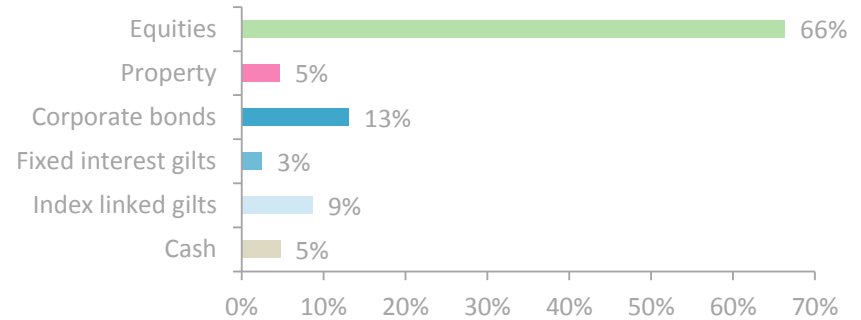


What caused your assets to change?

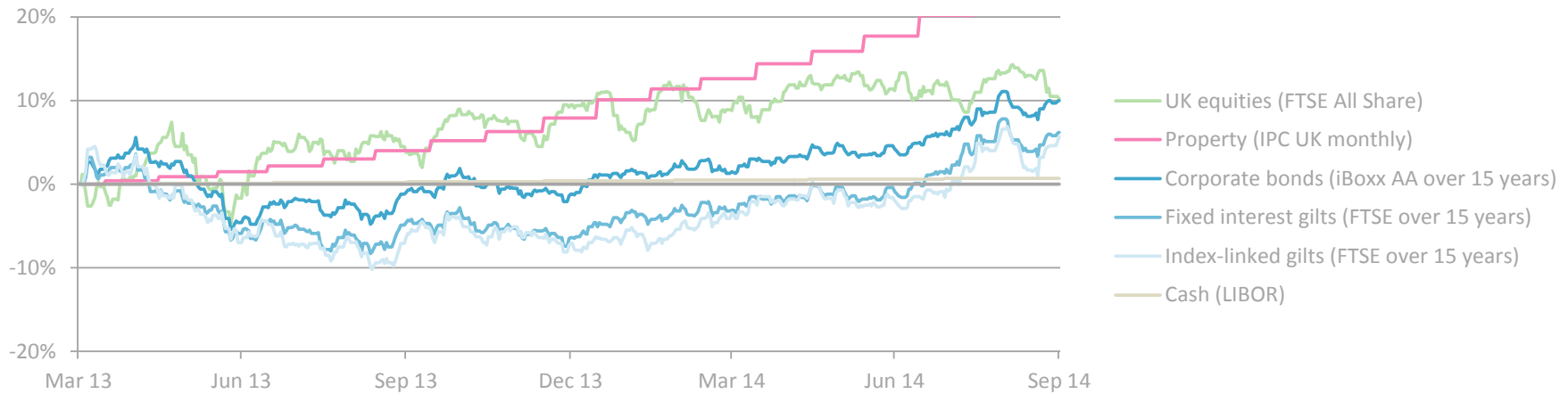
Allocation at valuation date



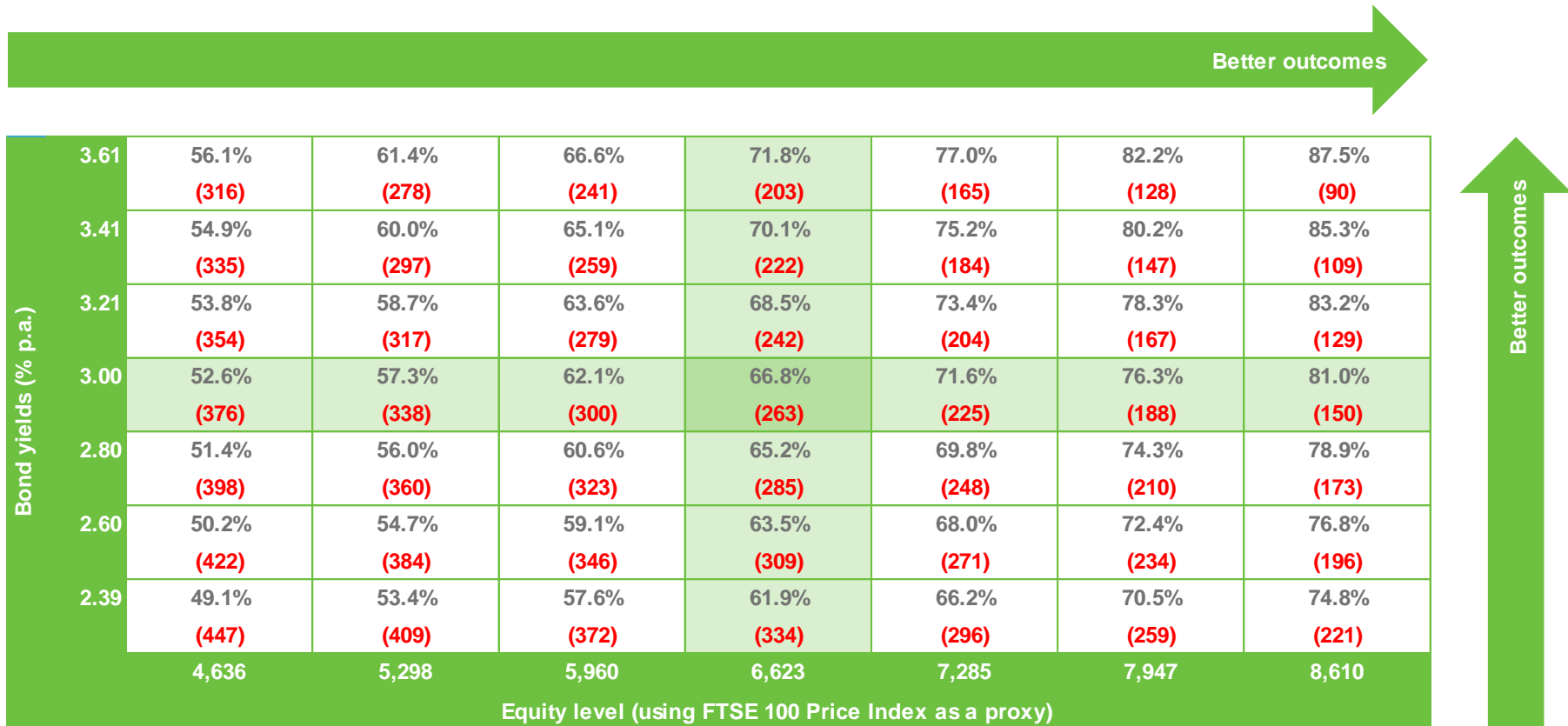
Allocation at 30 September 2014



Sterling total returns of major asset classes



Sensitivity matrix – ongoing funding basis



Page 32

66.8%	Funding level
(263)	Surplus/(deficit) – £m

Appendix: Scope, methodology, reliances, limitations and market data

Scope

This funding update is provided to London Borough of Havering as the Administering Authority of the London Borough of Havering Pension Fund to illustrate the funding position as at 30 September 2014. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except with Hymans Robertson LLP's prior written consent, in which case it is to be released in its entirety. Hymans Robertson LLP accepts no liability to any third party unless we have expressly accepted such liability in writing.

Compliance with professional standards

The method and assumptions used to calculate the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. As such, the advice in this report is consistent with that provided for the last valuation, as set out in the:

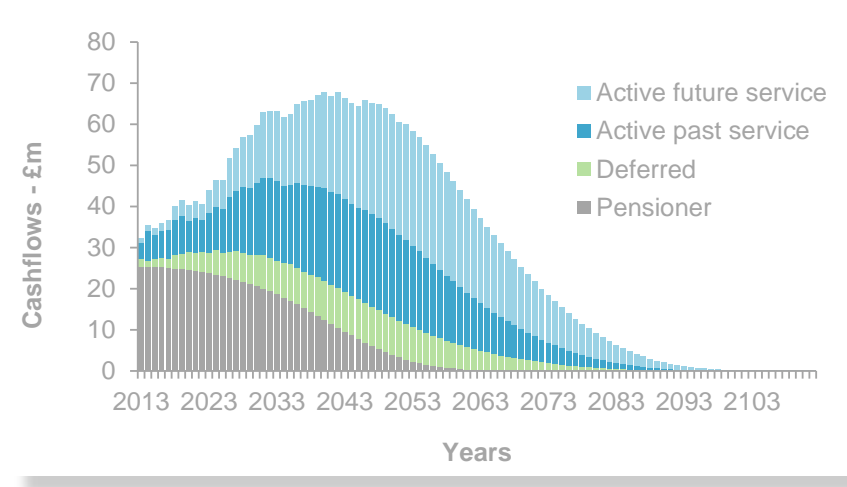
- Valuation Assumptions Briefing Note
- Funding Strategy Statement
- Valuation Report
- Rates and Adjustments Certificate

This update therefore complies with the following Technical Actuarial Standards (TASs):

- Reporting ("TAS R")
- Data ("TAS D")
- Modelling ("TAS M")
- Pensions TAS

How liabilities are calculated

- The future benefits that are payable from the Fund ("cash-flows") were calculated on a specific set of assumptions at the last valuation date.
- These cash-flows (on the ongoing funding basis) are shown below.
- These cash-flows were adjusted using available financial and Fund information to produce estimated cash-flows at post valuation dates.
- The specific information used for this update is set out on the next page.
- Market information is used to produce discount rates at these dates.
- The estimated cash-flows are discounted to produce the estimated liability value at a specific date.



How assets are calculated

Assets are projected from the valuation date allowing for actual or estimated Fund cash-flows and daily benchmark indices. Where available, asset values are recalibrated using known asset data.

HYMANS ROBERTSON LLP

The update allows for:

- 1 Movements in the value of the assets as measured by index returns and data from the administering authority where available.
- 2 Movements in liabilities as a result of changes in yields and hence inflation and discount rate assumptions.
- 3 Estimated cash-flows (contributions and benefit payments).
- 4 Expected accrual of benefits for employee members accrued since the last valuation (based on projected salary roll).
- 5 Demographic experience in line with assumptions.
- 6 Variations in liabilities arising from the changes in RPI since the valuation date differing relative to assumptions.
- 7 Benefit accrual in line with the 2014 scheme.

The update does not allow for:

- 1 Asset allocations differing from those assumed (other than when asset data is recalibrated based on available information).
- 2 The asset values as at the date of this report have not been based on audited Fund accounts.
- 3 Variations in liabilities arising from salary rises differing relative to assumptions.
- 4 Differences between estimated and actual salary roll of employees.
- 5 Variation between actual and expected demographic experience (e.g. early retirement or mortality).

Membership data

My calculations are based on the membership data provided for the most recent actuarial valuation. Details on the quality of this data and a data summary can be found in the last formal actuarial valuation report.

Limitations of this model

In the short term, the typical main contributors to funding position volatility are movements in the value of assets held, liability changes due to yield movements, benefit changes and deficit contributions to the Fund.

The accuracy of this type of funding update calculation is expected to decline over time. Differences between the position shown in this report and the position which a valuation would show can be significant; particularly if there have been volatile financial markets or material membership changes (these are more likely to occur in smaller Funds). It is not possible to fully assess the accuracy of this update without carrying out a full actuarial valuation.

If yield curves are not available at a funding update date this model uses approximate yield curves based on the movements in long-term gilt yields since the date of the last available yield curve. Liability calculations are performed on the valuation date, the funding update date, anniversaries of the valuation date and each month-end in between. Interpolation is used for other dates shown in graphs. Some asset classes are not easily tracked by the benchmark indices used in this model which can lead to significant differences between actual and projected asset values.

HYMANS ROBERTSON LLP

Indices used to update projected asset values

Some of the following indices have been used to update projected asset values in this funding update.

- FTSE 100
- FTSE 250
- FTSE Small Cap
- FTSE All Share
- FTSE All World Series North America (£)
- FTSE All World Series Japan (£)
- FTSE All World Series Developed Europe (£)
- FTSE All World Series Developed Asia Pacific (£)
- FTSE All World Series All World Developed Ex UK (£)
- FTSE All World Series All World Ex UK (£)
- FTSE All World Series All Emerging (£)
- UK Government Fixed Interest Gilts (Over 15 Years)
- UK Government Index-Linked Gilts (Over 5 Years)
- UK Government Index-Linked Gilts (Over 15 Years)
- iBoxx A rated UK Corporate Bonds (Over 15 Years)
- iBoxx AA rated UK Corporate Bonds (Over 15 Years)
- iBoxx AAA rated UK Corporate Bonds (Over 15 Years)
- iBoxx All Investment Grades rated UK Corporate Bonds (Over 15 Years)
- IPD Property
- Cash Indices LIBOR 1 Month

The indices are a standard list and are not necessarily the same indices that managers have been asked to track or beat. All indices used to estimate projected asset values are total return indices. However, the market indicators quoted in this report are price indices, as these are more widely recognised.

Market information used to update liability values

Some of the following market information has been used to update liabilities values in this funding update.

- Nominal gilt yield curves derived from Bank of England data
- RPI gilt inflation curve derived from Bank of England data
- Nominal swap curves derived from Bloomberg data
- Real swap curves derived from Bloomberg data
- Inflation volatilities derived from the swap market
- FTSE Actuaries UK Fixed Interest Gilts Yields (Over 15 Years)
- FTSE Actuaries Index-Linked Gilts (3% Inflation) Yields (Over 15 Years)
- iBoxx AA rated UK Corporate Bond Yields (Over 15 Years)

Note: Market yields displayed in the market indicators table are on an annual basis.

This page is intentionally left blank