

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
22 September 2015 (7.30 - 9.55 pm)**

Present:

COUNCILLORS

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

Residents' Group Stephanie Nunn and Ray Morgon

**East Havering
Residents' Group** Clarence Barrett

UKIP Group David Johnson (Vice-Chair)

**Admitted/Scheduled Bodies
Representatives:** Heather Foster-Byron

Trade Union Observers: John Giles

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

8 MINUTES OF THE MEETING

The minutes of the meeting held on 23 June 2015 were agreed as a correct record, subject to the amendment of minute 6, first decision to read 'Agreed to adopt the FTSE RAFI 3000 index for a portion of the passive equity mandate managed by SSGA.' and signed by the Chairman.

9 PENSION FUND PERFORMANCE MONITORING - QUARTER 2

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 June 2015 was -2.3%. This represented an under performance of -0.5% against the combined tactical benchmark and an out performance of 3.5% against the strategic benchmark.

The overall net return for the year to 30 June 2015 was 8.8%. This represented an out performance of 1.2% against the tactical combined benchmark and an under performance of -8.7% against the annual strategic benchmark.

The Committee had received an update from Hymans Robertson and presentations from two of the Fund Managers Ruffer and Royal London.

The Committee **noted** the reports and presentations.

10 **PENSION FUND ACCOUNTS 2014-15**

At the request of Officers the Committee had agreed to take this item before the Annual Report.

Officers had provided an extract of the Council's Statement of Accounts for the year to 31 March 2015, showing the unaudited accounts of the Havering Pension Fund as at that date.

Key items to note from the statement were:

- The Net Assets of the Fund had increased to **£575m** for 2014/15 from £506m in 2013/14, an increase of 13.2%.
- The net increase of £69m was compiled of a change in the market value of assets of £63m, investment income of £7m and net additions of cash of £2m, and offset by management expenses of (£3m).
- The overall return on the Fund's investments was 13.2% (net of fees). This represented an out performance of 1.7% against the tactical benchmark and an under performance of -12.9% against the strategic benchmark.

A copy of the audited Pension Fund Accounts and the auditors' opinion would be included in the 2014/15 Pension Fund Annual Report. The statutory publication date for the 2014/15 Pension Fund Annual Report was 1 December 2015.

Officers informed the Committee that once the auditors ISA260 report had been finalised it would be circulated to the Committee.

We have **noted** the report.

11 **PENSION FUND ANNUAL REPORT - YEAR ENDED 31 MARCH 2015**

Officers had confirmed that 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 had 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. Officers explained to the Committee that the annual report was still being audited.

The Committee had:

1. **Agreed** the 2014/15 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, subject to any minor amendments being incorporated in the report prior to the final sign off.

12 **EXCLUSION OF THE PUBLIC**

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

13 **EXEMPT MINUTES**

The exempt minutes of the meeting held on 23 June 2015 were agreed as a correct record, subject to the amendment of minute E6, to read 'Agreed to adopt the FTSE RAFI 3000 index for a portion of the passive equity mandate managed by SSGA.' and signed by the Chairman.

14 **QUARTER 2 PERFORMANCE - HYMANS REPORT**

Hymans Robertson had advised the Committee of the performance of the Pension Fund's investments in Quarter 2.

Market Summary

- Uncertainty around commodity prices and the Greek debt crisis had weighed on investors' sentiment over Q2 2015, with UK equity markets retracing some of the gains made at the start of the year. Japanese equities had been the standout performer, returning 5.6% over the quarter as a combination of government support and a flow through from a weaker Yen had pushed the Nikkei index up to its highest level in 18 years.
- Credit spreads had widened over Q2 2015, resulting in credit underperforming conventional gilts on a duration-adjusted (down 3.9% over the quarter).
- Property markets, represented by the IPD Monthly Property Index, had returned 3.6% over the quarter and 16.7% over the last twelve months.

Fund Performance

- Fund assets had been valued at £564.8m as at 30 June 2015, a fall of £9.0m over the quarter. The total return on the Fund's assets over the quarter had been -2.3%, underperforming the benchmark of -1.9%, by 0.4%..
- UBS Property and Ruffer Absolute Return had been the only mandates to produce positive absolute returns over the quarter, delivering returns of 3.2% and 0.6% respectively. In terms of relative performance, Baillie Gifford DGF, GMO Real Return and UBS Property had all underperformed their respective benchmarks. State Street's Global Equity Fund had continued to successfully track its benchmark, as was expected from a passive manager.

Investment Manager changes

- In April Baillie Gifford had announced that Charles Plowden, joint senior partner and one of the three co-managers on the firm's Global Alpha equity strategy, would be taking a 3 month sabbatical from the end of April 2015.
- Also during the quarter, Mike Brooks, one of the portfolio managers for the Baillie Gifford Diversified Growth Fund had resigned. Given the team structure employed in managing the fund, it was not believed that this would have a material impact of

the performance prospects for the fund and Hymans Robertson had maintained their “5 - Preferred Manager” rating.

- During the quarter, Hymans Robertson had upgraded their rating of UBS Triton to 4: Retain. This followed a series of changes that had been made to the UBS management team, the underlying property portfolio, the Fund's investor base and the overall Fund governance structure over the last two years, all of which it was believed had been positive steps.

Asset Allocation

- As at the quarter end, the Fund's direct allocation to equity assets had been slightly overweight target by 1.5% and the Fund's allocation to multi-asset mandates was underweight by 5.5%. On a look-through basis, the equity allocation at the quarter end had been c. 41%.

The Committee had **noted** the report.

15 PRESENTATION BY RUFFER

David Balance, Investment Director and Tom Saville, Senior Investment Associate attended the meeting to advise the Committee of their performance in quarter 2. Encouragingly, in a quarter where bond and equity markets had fallen, Ruffer had managed to produce a small positive return and outperform its cash benchmark by 0.3%. It had also outperformed the composite benchmark by 3.7%.

However, the Committee had been informed that by the end of the day on 21 September the Fund's investment had fallen to £70m.

Ruffers remained optimistic that they would be able to recover this loss in the long term.

The Committee had noted the presentation.

16 PRESENTATION BY ROYAL LONDON

Ewan McAlpine, Senior Client Portfolio Manager, Fixed Income and Rob Nicholson, Client Relationship Director had attended the meeting to discuss Royal London's performance over the last quarter and their views on future developments.

Quarter 2 had proven difficult for Royal London with the funding losing approximately £5m in value. However, they had still managed to outperform the benchmark. The position they had adopted was expected to improve the situation over the next three years.

At the last meeting the Committee had agreed to amend the outperformance target for the Royal London bond mandate from 0.75% to 1.25% p.a. (net of fees). It had also been agreed that suitable revisions to the investment guidelines should be discussed and agreed and that Royal London would be invited to address these changes and the potential impact on risk within the portfolio during their presentation.

Royal London had addressed these issues in their presentation and indicated they would be happy with the proposals.

A list of Allowable Pooled funds had been provided to the Committee.

The Committee had confirmed their decision to amend the outperformance target for the Royal London mandate and to restrict the investment to the Pooled Funds listed.

Chairman