

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
23 June 2015 (7.30 - 10.10 pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Melvin Wallace and Roger Westwood
Residents' Group	Ray Morgon
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson (Vice-Chair)

Apologies were received for the absence of Councillor Stephanie Nunn, John Giles, (UNISON) and Heather Foster-Byron (Admitted/Scheduled Bodies).

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

1 MINUTES OF THE MEETING

The minutes of the meeting held on 17 March 2015 were agreed as correct record and signed by the Chairman.

2 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2015

Officers advised the Committee that the net return on the Fund's investments for the quarter to 31 March 2015 was 4.5%. This represented an out performance of 1.1% against the combined tactical benchmark and an under performance of -0.4% against the strategic benchmark.

The overall net return for the year to 31 March 2015 was 13.2%. This represented an out performance of 1.7% against the tactical combined benchmark and an under performance of -12.9% against the annual strategic benchmark.

1. Hymans Robertson (HR)

Market Summary

- Hymans Robertson updated the Committee with a roundup of the market background as at the end of March 2015.
- Equity markets were buoyant over the quarter, with all main regional indices delivering positive returns. Japan and Europe (ex U.K.) were the stand out performers, returning 16.4% and 10.6% respectively.
- Yields continued to remain low over the quarter, with longer dated conventional and index linked gilts returning 4.1% and 3.3% respectively.
- Credit spreads narrowed significantly over the quarter and corporate bonds delivered a return of 3.2%.
- Property markets, represented by the IPD Monthly property Index, returned 3.0% over the quarter and 18.3% over the last 12 months as investment flows into the asset class continues.

Fund Performance

- Assets were valued at £573.8m as at 31 March 2015, an increase of £24.9m over the quarter. The total return on the Fund's assets over the quarter was 4.5%, ahead of the benchmark return of 1.1%
- Each of the Fund's mandates produced positive absolute returns over the quarter, with the most significant returns being generated by the Fund's equity mandates with Baillie Gifford and State Street.

Investment Manager changes

- During the quarter the Fund invested £100.75m into the GMO Global Return Fund. This was phased over two dealing dates with the first tranche of £50m being invested on 13 January 2015 and the second tranche of £50.75m occurring on 20 January 2015.
- Also during the quarter, Mike Brooks, one of the portfolio managers for the Baillie Gifford Diversified Growth Fund resigned. Given the team structure employed in managing the fund, Hymans did not believe this would have a material impact on performance prospects and had maintained a "5 – Preferred Manager" rating.

- The rating for UBS Triton had been upped to “4 – Retain.” This followed a number of changes 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 Hymans believed were positive steps.

2. Baillie Gifford (BG)

Fiona MacLeod and Paul Morrison attended the meeting to give a presentation on the performance of the Funds mandates in the Baillie Gifford Global Alpha Fund and the Baillie Gifford Diversified Growth Fund.

Since inception in April 2012 the Global Alpha Fund had achieved a return of 18.2% outperforming the benchmark by 2.7%.

Since inception in November 2013 the Diversified Growth Fund had achieved a return of 6.9% per annum outperforming the benchmark by 2.8%.

Both funds had been set targets which they would seek to better over a rolling five year period so it was still early days.

3. GMO

Tommy Garvey and Helen Roughsedge attended the meeting to deliver a presentation on GMO’s performance since inception. Although the Fund had only recently invested funds with GMO Global Real Return UCITS Fund their performance to date had been encouraging. This performance had been driven by strong equity performance, partially offset by weak fixed income performance.

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

3 PENSION FUND RISK REGISTER

Risk Management was a key responsibility of those charged with Pension Fund Governance and the need for effective risk management was reflected throughout guidance and regulation in the Local Government Pension Scheme. The risk register had been compiled with reference to the CIPFA ‘Managing Risk in the LGPS (2012)’, input from the Internal Audit, Insurance and Corporate Risk Manager, Risk Consultants from Zurich Municipal, Pension Fund Accountant, Corporate and Strategic Finance Manager and the Pensions Administration Project Manager.

Officers advised that seven key risks had been identified and recorded in the risk register and summarised below:

1. Inaccurate three yearly actuarial valuations - insufficient funding to meet liabilities;
2. Incorrect/Inappropriate Investment Strategy - failure to meet strategic objectives by not reducing pension deficit;
3. Failure of investments to perform in-line with growth expectations – potential loss of money;
4. Failure to comply with legislative requirements – potential litigations;
5. Inability to manage the Pension Fund and associated services – negative impacts upon service provision;
6. Failure to effectively enrol new employers/members – cash flow impacts and possible litigations;
7. Pension Fund payment Fraud – potential financial loss.

The Committee have **noted** the report.

4 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2014/15

Officers had prepared a report detailing the work undertaken by the Committee in 2014/15 and drawn up a work programme for 2015/16. Included in the report had been an assessment of the training requirements for members of the Committee. This would form the basis of the Pension Fund Business Plan.

In accordance with CIPFA guidance the Business Plan contains the following:

- 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.

The Committee have:

1. Agreed the Business Plan/Report of the work of the Committee and referred it to Council for consideration; and
2. Agreed the training proposals set out in the work plan.

5 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.

6 OPTIONS FOR CHANGE TO EQUITY AND BOND MANDATES

Prior to the beginning of the meeting the Committee had received training to better able them to make an informed decision on this matter.

Having considered the report and the advice of the Fund Advisors we have:

1. **Agreed** to adopt the FTSE RAFI 300 index for a portion of the passive equity mandate managed by SSGA;
2. **Agreed** to increase the return objective to 1.25% for the bond mandate and allow the Manager greater flexibility in the management of the mandate; and
3. **Agreed** that officers submit a further report to our next meeting re a further diversification of bond assets.

7 THE ADMISSION OF CATERLINK LTD TO THE LONDON BOROUGH OF HAVERING'S PENSION FUND

Officers had advised that the Bower Park Academy had awarded the contract to provide catering services to Caterlink Ltd. The contract is due to transfer on 1 September 2015 at which time the contracts of employment of the existing staff (5 employees) would transfer from the Council to Caterlink Ltd under the Transfer of Undertakings (Protection of Employment) Regulations.

Caterlink Ltd had applied for Admitted Body Status in order to participate in the Local Government Pension Scheme for the provision of pension benefits for the transferring employees.

The Pension Fund Actuary had assessed the level of indemnity bond required to be £37,000 although the exact arrangements for the bond cover would have to be finalised. When the admission agreement was formed, Caterlink Ltd would be required to pay contribution rates as determined by the Fund Actuary.

The Closed admission of Caterlink Ltd as transferee body into the London Borough of Havering Pension Fund was **agreed** subject to:

- a. All parties signing up to an Admission Agreement; and
- b. An Indemnity or Insurance Bond in an approved form with an approved insurer or relevant institution, being put in place to protect the letting authority/pension fund.

Chairman