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PENSIONS COMMITTEE
AGENDA

7.00 pm	Tuesday 13 December 2016	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative (3)	Residents' (2)	East Havering Residents' (1)	UKIP (1)
John Crowder (Chairman) Melvin Wallace Jason Frost	Stephanie Nunn Nic Dodin	Clarence Barrett	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 INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the meeting held on 22 November 2016 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPTEMBER 2016 (Pages 9 - 24)

6 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.

7 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.

8 HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING SEPTEMBER 2016 (Pages 25 - 46)

9 PRESENTATION BY GMO ON PERFORMANCE OF THEIR GLOBAL REAL RETURN (UCITS) UND (Pages 47 - 68)

10 STATE STREET GLOBAL ADVISORS (SSGA) - FUND PERFORMANCE TO 31 OCTOBER 2016 (Pages 69 - 82)

11 LONDON CIV PRESENTATION (Pages 83 - 118)

12 INVESTMENT STRATEGY (Pages 119 - 130)

Andrew Beesley
Committee Administration Manager

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Committee Room 3A - Town Hall
22 November 2016 (7.00 - 7.25 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman) and Jason Frost
Residents' Group	Nic Dodin and Stephanie Nunn
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson (Vice-Chair)
Trade Union Observers:	Andy Hampshire

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

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

21 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 20 September 2016 were agreed as a correct record and signed by the Chairman.

22 **SERVICE REVIEW OF THE PENSION FUND CUSTODIAN**

Officers informed the Committee that they had undertaken a review of the performance of the Pension Fund's Custodian, State Street. State Street had performed the role of Custodian since 31 December 2004. The role of the Global Custodian falls in to two main categories:

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

Performance had been reviewed against a number of set criteria and officers had indicated that they were satisfied with the safe keeping and custody functions provided by State Street custodians and had been pleased with the investment accounting and reporting functions.

Officers had identified issues with a number of reconciliations, however, they were confident that these could be resolved with State Street.

The Committee have been advised that the cost of the custodian service has been reduced in recent years due to the fund's use of pooled funds which consequently have reduced the custody and transaction changes.

The Committee **noted** the report.

23 **INVESTMENT ADVISOR SERVICE REVIEW AND CONTRACT EXTENSION**

Officers had reported that they had carried out a review of the services provided by the Pension Fund's Investment Advisor, Hymans Robertson, for the period September 2014 to September 2015.

Myner's principles number 2 recommended that the Committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition. Hymans Robertson had been appointed in 2012 and the contract ran until 31st March 2017 unless terminated or extended by the Council in accordance with the terms of the contract.

The contract could be extended for an additional period of up to two years with the written consent of both parties, no later than three months before expiry.

The services provided by Hymans Robertson had been generally in relation to the core services which included production of quarterly monitoring performance reports, attendance at Pensions Committee and providing questions for officer meetings with fund managers, investment advice and monitoring of fund managers. Additionally, Hymans Robertson had carried out a due diligence review of the London CIV (Collective Investment Vehicle) prior to the initial transfer of assets to the London CIV and provided advice on the purchase of additional units in the Fund's property portfolio. These additional tasks represented an extra cost to the fund.

The assessment of the service was against a set of criteria defined as part of the tender specification as set out 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; and
- Support arrangements.

The cost of the Investment Advisor for the period October 2015 to September 2016 has been £32,755, £28,255 for core services and £4,500 for the additional services. The cost of the additional services had been kept within budget.

Both officers and the Committee had indicated that they were satisfied with the service provided by Hymans Robertson and had continued confidence in the advice being given.

The Committee had two options with regard to the current contract:

- Grant contract extensions for any period up to two years from 1 April 2017 on the existing contract; or
- Re-tender for a new contract to commence from 1 April 2017.

Officers had advised the Committee that the 1 April 2017 deadline conflicted with a number of external priorities (pooling, MiFDII and new investment regulations) and therefore they were recommending that the existing contract be initially extended for a period of one year.

The National LGPS Framework were about to commence appointing to a new investment consultancy contract and this was likely to be made available from April 2017. The contract would be for a period of at least seven years and likely to be broken up into separate lots to make the new contract more flexible and more future proof. If the Committee extended the existing contract for one year it would give officers the time to consider the flexibility of the variety of lots on offer and assess whether there was merit and value for money in undertaking this process jointly with our oneSource partners whose own Investment Advisor contract would be considered for renewal in the same time frame.

The Committee:

1. **Noted** the report; and
2. **Approved** a one year extension of the existing contract for the provision of Investment Advice from Hymans Robertson LLP for the period April 2017 to March 2018.

24 **REVIEW OF GOVERNANCE COMPLIANCE STATEMENT**

Officers had informed the Committee that in line with the Local Government Pensions Scheme Regulations (LGPS) 2013 as amended by the LGPS (Governance) Regulations 2015 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.

Since the 1 April 2008 it had been a requirement for the administering authority to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by the Department of Communities and Local Government (DCLG).

The report had set out the Pension Fund's draft Governance Compliance Statement for November 2016 and had highlighted where changes might be required.

Changes to the Statement had been made to reflect the changes in Committee membership following Annual Council in May 2016.

Officers had highlighted the fact the Statement was not fully compliant against the set of best practice principles. Principle B - Representation item (a) (iii) stated that 'to meet the required standards all stakeholders are offered the opportunity to be represented by, where appropriate, appointing independent observers.'

The Committee **reaffirmed** their previous decision not to employ the services of an independent professional observer on the basis that the current monitoring arrangements were sufficient for the size of the funds.

The Committee had been informed that in October 2016 AON Hewitt, with support from CIPFA had developed guidance to support the Local Government Pension Scheme (LGPS) in demonstrating good practice governance during the implementation of, and when participating in, LGPS asset pooling arrangements. The guidance had suggested reviewing the wording of the Local Authority's constitution and/or the Terms of Reference for the Pensions Committee to consider whether they may need to be refined to adapt with the new investment pooling arrangements. Any changes required would be reflected in the next review of the Governance compliance statement.

In the interim the Committee **agreed** that the Council's representative on the CIV should report back to this Committee on the decisions taken by the CIV.

The Committee have **agreed** the Statement as amended.

25 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT

The Committee had been reminded that on 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 had come into force. The basic requirement of this law was that nearly all persons who were involved with a pension scheme had a duty to report 'as soon as reasonably practicable' 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'. The Pensions Regulator had issued a Code of Practice (CP1) that set out guidance on how to comply.

The Code has discussed each of these issues, in particular what the regulator saw as materially significant.

For administering authorities and employers, an initial requirement had been to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These have been put in place during 2005 and part of this procedure was to undertake an annual review. This report represented the annual review for the year up to 30 September 2016.

Since the requirement had come into force on the 5 April 2005, no possible breaches have been reported to the named officer.

The Committee have **noted** the report.

26 SERVICE REVIEW OF ACTUARY

Officers reported that they had undertaken a review of the performance of the Pension Fund's Actuary, Hymans Robertson, for the period 1 October 2015 – 30 September 2016.

The Havering Pension Fund had joined the Croydon Framework in March 2015 to obtain Actuarial and Benefits Consulting Services. Hymans Robertson had been the appointed Actuary under this framework agreement. The contract expired on 31 March 2018. Hyman's had been the Funds Actuary since April 2010 and no changes had been made to the Hymans contacts as part of joining the Croydon framework but the Pension Fund had benefited from savings in procurement costs and fees.

The framework had also addresses the issues of:

- allowing authorities the opportunity to work together on a range of projects, sharing knowledge and costs to achieve common goals at a fraction of the costs that would otherwise be incurred and to focus;

- meeting the governments encouragement for greater efficiencies in the administration of pensions and the Framework was designed to help meet those efficiencies together as part of the Croydon Framework.

The following criteria had been used for the contract evaluation:

(a) Internal quality control procedures;
(b) Management processes that maintain the knowledge and expertise in depth to support the contract;
(c) Ability to work to tight deadlines; and
(d) Demonstrate long term commitment to Local Government.

The contract had set out a detailed service specification for the Actuarial Valuation Service and other actuarial services required. Other actuarial services included:

(e) meeting the requirements of FRS 17/IAS19;
(f) admission of new bodies to the fund, including recommended employer contributions and bond assessments;
(g) providing actuarial factors to enable the calculation of early or ill health retirements; and
(h) advice and the provision of up-to-date information on topical issues.

The production of the triennial valuation was the key deliverable from the Actuary, together with regular funding updates and annual calculations required for the Council's statement of accounts under the Code of Practice on Local Authority Accounting. The last valuation had been at 31 March 2016 and the results were still awaited ad due in December 2016.

The Actuary had also provided advice regarding changes in legislation affecting the Pension Fund, reviews guidance, and provided scheduled and admitted body contribution rates and other calculations as required.

Since April 2015 the Actuary had undertaken the following:

2016 Formal Valuation

- Preparatory work for the 2016 valuation
- Preparation of letter outlining GAD section 13 valuations and what this means for the Fund
- Attendance at pre valuation meeting on 22 October 2015, including projected results for the valuation
- Provision of 2016 valuation guide

- Attendance at valuation meeting on 24 February 2016 to discuss possible contribution strategies for the Fund and to begin scoping an the ALM
- Continued liaison with GAD and software providers regarding the new universal data capture, including testing and feedback
- Attendance at meeting to discuss section 13 results on 26 July 2016
- Provision of salary growth analysis paper to evidence changes to the salary assumption
- Assistance with Whole Fund data cleansing including correcting software provider issues
- Whole Fund data reconciliation, calculations and initial results
- Asset liability modelling to assist setting the Council contribution rates and checking the investment strategy continues to underpin the contribution plan
- Attendance at meeting on 1 September 2016 to discuss initial results and asset liability modelling
- Further asset liability modelling of alternative scenarios
- Calculation of SAB standard funding ratio, including provision of actuarial certificate before the SAB deadline

Employers
- Final cessation valuations for Havering Citizens Advice Bureau and KGB Cleaners
- Indicative cessation valuation for Family Mosaic
- Advice on cessation valuation options for May Guerney
- Provision of bond and contribution rate assessments, including ill-health budgets, relating to Accent Catering and Breyers
- Provision of contribution rate assessments for academies, including ill-health budgets, relating to Brookside Infants, Ravensbourne and Benhurst
- Recommendations on contribution rate for Drapers Maylands
- Work over the period to complete the bulk transfer of Elutec to London Borough of Barking and Dagenham Pension Fund

Governance
- Advice regarding the register of members' interest
- Advice on service restructuring and governance compliance

Training
- Delivered staff training on outsourcing

Accounting
- Produced IAS19 and IAS26 disclosures for the London Borough of Havering and FRS17/102 disclosures for the Colleges and Academies;
- Produced the actuarial statement for the statement of accounts;

General

- Provision of newsletters and help with publications including:
    - High Earners tax newsletter
    - Review of Conflict of Interest policy
    - Regular legislative updates, 60 second Summaries, Briefing notes

The cost of the actuarial services were:

- 1 October 2015 to 31 March 2016 £44,155
- 1 April 2016 to 30 September 2016 £81,370

In addition, fees, including actuarial work had been recharged to other employees within the fund, as follows:

- 1 October 2015 to 31 March 2016 £24,943
- 1 April 2016 to 30 September 2016 £32,620

The increase in fees during this period could be accounted for by the triennial valuation.

The Committee were advised that Officers were very satisfied with the services provided by Hymans Robertson and accordingly have **noted** the report.

27 **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.

28 **EXEMPT MINUTES OF THE MEETING**

The exempt minutes of the meeting of the Committee held on 20 September 2016 were agreed as a correct record and signed by the Chairman.

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Chairman

Havering
LONDON BOROUGH

PENSIONS COMMITTEE
13 DECEMBER 2016

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPTEMBER 2016**
SMT Lead:	**Deborah Middleton**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.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 September 2016

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

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

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 2016. 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 2016 was **6.7%.** This represents an outperformance of **2.5%** against the tactical benchmark and represents an outperformance of **1.8%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 September 2016 was **16.2%.** This represents an outperformance of **2.6%** against the tactical combined benchmark and under performance of **-7.9%** against the annual strategic benchmark. The annual strategic benchmark is a measure of the fund's performance against a target based upon gilts + 1.8% (the rate which is used in the valuation of the funds liabilities). The implications of this shortfall are discussed further in paragraphs 1.2 and 1.3 below.

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 the Fund's UK/Global Equities Passive Manager (State Street Global Assets), Multi-Asset Manager (GMO Global Real Return) and the Fund's pooling operator (London CIV).
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 Investment Strategy was fully reviewed during 2012/13 and this report reflects those structure decisions and any subsequent changes. 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 strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit. This current shortfall is driven by the historically low level of interest rates which drive up the value of gilts (and consequently the level of the fund liabilities). Whether interest rates will remain at those levels for the longer term and the implications for the Fund's Investment strategy is a matter which will need to be considered at the time of the next actuarial review.

1.3 Our Investment Advisors have stated that there are things that could have been done to protect the fund against falling interest rates (e.g. hedging) but they do not believe that this action would have been appropriate. The Fund is already partially protected through its investments with Royal London and given the long term nature of the fund they believe that the fund objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, inflation and expectations of future inflation has fallen meaning that the actual benefit cash flows expected to be paid from the fund will be lower.

1.4 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.

1.5 The following table reflects the asset allocation split :

Asset Class	Target allocation	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	UK Base Rate plus 3.5%
	20%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
Absolute Return	15%	LCIV Ruffer	Pooled	Active	LIBOR+

Asset Class	Target allocation	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
Property	5%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	17%	Royal London	Segregated	Active	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years. Plus 1.25%*
Infrastructure	3%	State Street Global Assets –Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project.			

*0.75% prior to 1 November 2015

1.6 UBS, SSgA, GMO, Ruffer and Baillie Gifford manage the assets on a pooled basis. Royal London manages the assets on a segregated basis. Both the Baillie Gifford mandates and the Ruffer mandate are now operated via the London Collective Investment Vehicle (CIV). 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.

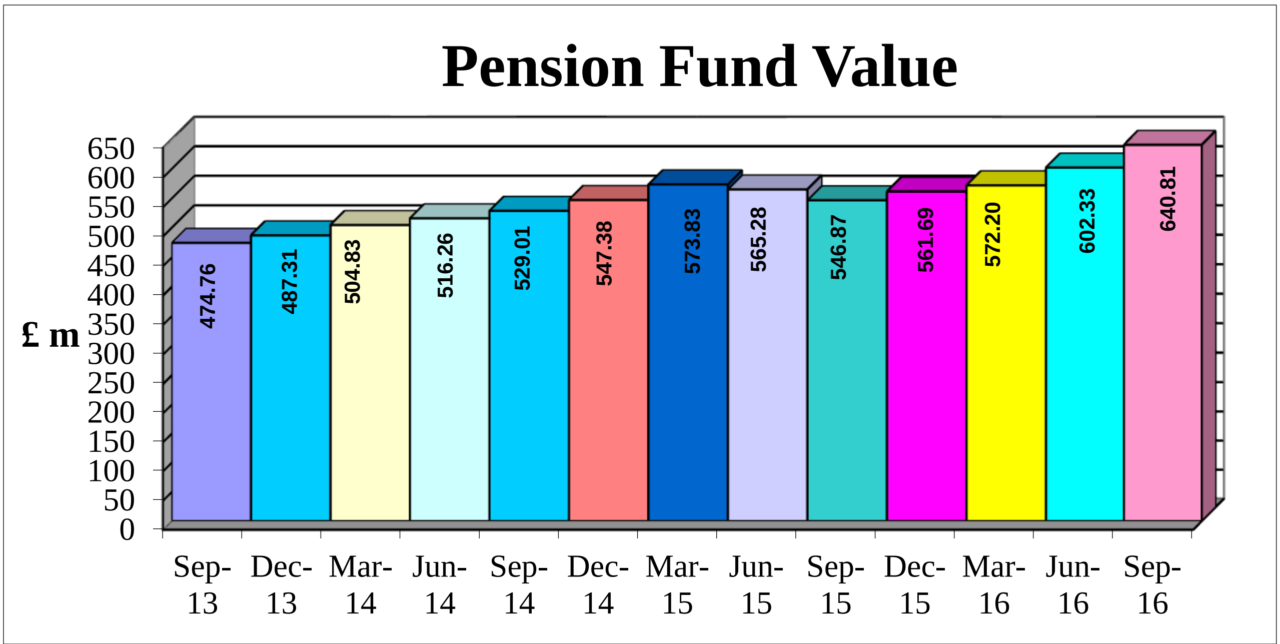
1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please 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 are the pooled Managers (SSgA, UBS, Baillie Gifford, Ruffer and GMO) 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 will be made for additional presentations.

1.9 Hyman's performance monitoring report is attached as an exempt report**.**

2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 September 16 was **£640.81m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes accrued income. This compares with a fund value of £602.33m at the 30 June 16; an **increase** of **£38.48m**. The movement in the fund value is attributable to an increase in assets of £40.37m and a reduction in cash of (£1.89m). The internally managed cash level stands at **£13.66m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£13.66m** follows:

CASH ANALYSIS	**2014/15 31 Mar 15**	**2015/16 31 Mar 16 Updated**	**2016/17 30 Sep 16**
	£000's	£000's	£000's
Balance B/F	**-5661**	**-7599**	**-12924**
Benefits Paid	33568	35048	17969
Management costs	1600	1754	609
Net Transfer Values	-135	518	1581
Employee/Employer Contributions	-35306	-42884	-22576

Cash from/to Managers/Other Adj.	-1618	306	1725
Internal Interest	-47	-67	-47
Movement in Year	**-1938**	**-5325**	**-739**
Balance C/F	**-7599**	**-12924**	**-13663**

2.3 Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that the target cash level should be £5m but not fall below the de-minimus amount of £3m or exceed £6m. This policy includes drawing down income from the bond and property manager when required.

2.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and introduced a discretion that allows the Chief Executive to exceed the threshold to meet unforeseeable volatile unpredictable payments.

3. Performance Figures against Benchmarks

3.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	Quarter to 30.06.16	**12 Months to 30.06.16**	**3 Years to 30.06.16**	**5 years to 30.06.16**
Fund	6.7%	16.2%	9.0%	11.4%
Benchmark	4.1%	13.3%	8.6%	10.0%
*Difference in return	2.5%	2.6%	0.4%	1.3%

Source: WM Company

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

3.2 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 30.09.16	**12 Months to 30.09.16**	**3 Years to 30.09.16**	**5 years to 30.09.16**
Fund	6.7%	16.2%	9.0%	11.4%
Benchmark	4.8%	26.1%	19.1%	14.0%
*Difference in return	1.8%	-7.9%	-8.5%	-2.3%

Source: WM Company

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

3.3 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 2016)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	8.39	8.73	**-0.34**	9.04	**-0.65**
UBS	-1.41	-0.68	**-0.73**	n/a	**n/a**
LCIV/Ruffer*	6.94	0.00	**6.94**	n/a	**n/a**
SSgA Global Equity	8.43	8.45	**-0.02**	n/a	**n/a**
SSgA Fundamental Index	9.12	9.25	**-0.13**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.12	0.05	**0.07**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	12.10	7.85	**4.25**	9.48	**3.67**
LCIV/Baillie Gifford (DGF)*	4.69	0.00	**4.69**	n/a	**n/a**
GMO	3.17	-0.02	**3.19**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- * Absolute Return and not measured against a benchmark

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	22.57	23.87	**-1.30**	25.12	**-2.55**
UBS	3.89	3.35	**0.54**	n/a	**n/a**
LCIV/Ruffer	n/a	n/a	**n/a**	n/a	**n/a**
SSgA Global Equity	31.14	31.22	**-0.08**	n/a	**n/a**
SSgA Fundamental Index	30.69	30.85	**-0.16**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.54	0.32	**0.22**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	n/a	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)	n/a	n/a	**n/a**	n/a	**n/a**
GMO	4.94	0.80	**4.14**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Ruffer not invested for entire period (inception LCIV 21/06/16)

- Baillie Gifford (DGF) not invested for entire period (inception LCIV 15/02/16)
- Baillie Gifford Global Alpha not invested for entire period (inception LCIV 11/04/16)

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 03 November 2016 at which a review of their performance as at 30 September 16 was discussed

b) The value of the fund as at 30 September 16 increased by £11.43m on the previous quarter.

c) The fund achieved a net return of 8.39% during the quarter and under-performed the benchmark for the quarter by -0.34%. Royal London under-performed the benchmark over the one and three year period by --1.3% and -0.12% respectively and ahead of benchmark over five and ten year periods, with relative returns of 0.81% and 0.51% respectively. Since inception they outperformed the benchmark by 0.49%

d) The dominant themes of the quarter were uncertainty over the impact of the Brexit result and concerns over the economic effect of the US presidential election. The Bank of England announced a cut in interest rates and new quantitative easing, incorporating purchases of both corporate and government bonds

e) Royal London reported on market events during the quarter:

- Government bonds (gilts) - Quantitative easing in developed markets along with a cut in interest rates in the UK base rate helped push Gilts to record low yields, however yield moves were reversed in September ending quarter 3 broadly unchanged. UK Gilts out performed overseas counterparts.

- Index linked gilts - Brexit concerns along with quantitative easing and a weaker pound fuelled demand. Long dated real yields fell to record lows. The UK outperformed its global counterparts, with real yield differentials rising to record highs. UK CPI inflation rose marginally, but remains well below the Bank of England’s 2% inflation target, but depreciation in sterling should result in a sharp pickup in inflation, with expectations that it will rise above target in the next 18 months.

- Investment grade sterling credit bonds - The reversal of the knee jerk risk aversion following the Brexit result, showed the strongest quarterly return since 2009. This was supported by the Bank of England's announcement to commence a corporate bond purchase scheme as part of the latest round of quantitative easing. The full implications of Brexit are still not clear but with liquidity remaining low this provides opportunities and challenges. Stock specific risk has increased. Credit bonds are now undervalued relative to government bonds; portfolio diversification continues to be important during bouts of volatility.

f) Asset Allocation within the portfolio was 51% Conventional credit bonds, 29.6% Index linked sovereign bonds (including overseas index linked bonds), 11.6% Sterling conventional gilts, 7.2% RL Sterling extra yield bond fund, 0.2% overseas conventional credit bonds and 0.4% in cash.

g) There have only been small portfolio changes during the quarter, the portfolio remains overweight in conventional credit bonds and remains underweight in sterling conventional gilts and index linked sovereign bonds.

h) The relative fund performance over the quarter was again a result of stock selection, yield curve and duration positioning.

- Royal London maintained their underweight exposure to government bonds in favour of corporate bonds this quarter. Credit spreads, the average yield premium of credit bonds over UK government bond yields narrowed as risk sentiment recovered following the initial aversion following the Brexit result. This aspect of asset allocation had a positive impact upon fund performance.

- Royal London held an underweight position in government bonds through conventional gilts, with a preference for index linked government bonds. Index linked outperformed conventional gilts as investors sought inflation protection against a backdrop of uncertainty and a weak currency. The preference for index linked bonds had a positive impact over the quarter.

- Off-benchmark overseas government bond positions detracted from performance. Royal London held US, Australian, Canadian and French bond. Overseas bonds initially outperformed, but then a combination of increased pension fund demand and the announcement of further monetary easing in the UK lead to outperformance of UK bonds in August, stabilising in September.

- Exposure was maintained to the Royal London Sterling Extra Yield Bond Fund, this was detrimental to performance on account of its short duration.

- Overall fund duration remained below that of the benchmark. The short duration position was a significant negative factor in relative performance.

i) The Bank of England nominal gilt curve currently implies that it could take interest rates nearly 5 years to surpass 1%, suggesting that a low yield environment may last for some time to come. A short duration position has historically been taken to benchmark. Royal London believes that UK base rates will not rise for at least 2 years but they do not envisage a negative interest rate in the UK. They do not expect to change the overweight short duration position. Their gilt yield forecast is that they expect 10 year bonds to rise by 10-20 base points in the next 6-12 months, 20-30 year bonds may raise more; they said that longer dated bonds are overvalued and yields are too low.

j) We asked Royal London what they feel the potential risks are faced by debt markets as the Brexit negotiations progress, they said that the portfolios remain positioned for a medium to longer-term view that the global economic situation will continue to improve; they believe that government bond yields will rise, but positioning in portfolios will continue to be tactically managed amid high levels of volatility. We believe credit bonds will outperform government bonds and that portfolios should focus on security of cash flows and the delivery of stable and attractive returns over the medium to long term

k) We asked Royal London what progress has been made on the development of the Multi-Asset Credit Launch and when do you anticipate this being launched, they said that they were on track they have appointed a new fund manager, a senior credit analyst and two credit analysts ahead of the planned launch early next year.

l) No governance or whistle blowing issues were reported

4.2. Property (UBS)

a) In accordance with agreed procedures officers will only meet with representatives from UBS once in the year with the other meeting to be held with members. UBS last met with the members of the Pension Committee on the 15 March 2016 at which they covered the period ending up to 31 December 2016. Officers last met with representatives from UBS on the 24 August 2016 at which a review of their performance as at 30 June 16 was discussed. UBS are scheduled to present to the committee at the 14 March 2017 meeting.

b) The value of the fund as at 30 September 2016 decreased by £0.45m since the previous quarter.

c) UBS delivered a net return of -1.41% over the quarter, underperforming the benchmark by 0.73%. The Fund is ahead of the benchmark over the year by 0.54% and 1.1% over 3 years. But is behind over the five year period to September 2016 by -2.12%.

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. Ruffer last met with the members of the Pension Committee on the 20 September 2016 at which they covered the period ending up to 30 June 2016. Officers last met with representatives from Ruffer on the 4 February 2016 at which a review of their performance as at 31 December 16 was discussed.

b) £70.7m of assets were transferred to the London CIV on the 21 June 2016. The residual assets of £1.3m were transferred on the 31 August 2016.

c) The London CIV will oversee the monitoring and review of the performance of this mandate. However Ruffer has stated that they will continue with the existing monitoring arrangements and meet with the Committee to report on its own performance.

d) The value of the fund as at 30 September 16 increased by £5.05m on the previous quarter.

e) The investment objective of the sub-fund is to achieve low volatility and positive returns in all market conditions from an actively managed portfolio of equities or equity related securities (including convertibles), corporate and government bonds and currencies. Capital invested in the sub-fund is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods

f) Ruffer delivered a return of 6.94% (net of fees) over the quarter. The mandate is an Absolute Return Fund (measures the gain/loss as percentage of invested capital) and therefore is not measured against a benchmark. Capital preservation is a fundamental philosophy of the Fund

4.4. Passive Equities Manager (SSgA)

a) Representatives from SSgA are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 September 2016 follows

b) The SSgA mandate is now split into three components, Sterling Liquidity sub fund, SSgA All World Equity Index sub fund, and the Fundamental Index Global Equity sub fund.

c) Value of the three mandates within the fund has increased by £6.88m in total since the last quarter.

d) SSGA has performed in line with the benchmark over the latest quarter, as anticipated from an index-tracking mandate.

4.5. Global Equities Manager (Baillie Gifford)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 4 February 2016 at which a review of their performance as at 31 December 15 was discussed.

b) This mandate transferred to the London CIV on the 11 April 2016.

c) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 September 2016 follows.

d) The value of the fund increased by £10.82m over the last quarter.

e) The Global Alpha Fund delivered a net return of 12.10% over the quarter, outperforming the benchmark by 4.25%. Since inception with the London CIV the fund returned 19.77% outperforming the benchmark by 2.41%.

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

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 4 February 2016 at which a review of their performance as at 31 December 15 was discussed.

b) This mandate was transferred to the London CIV on the 15 February 2016.

c) The London CIV will now oversee the monitoring and review of the performance of this mandate and representatives from the London CIV are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 September 2016 follows.

d) The value of the fund increased by £3.57m over the last quarter.

e) The Global Alpha Fund delivered a return of 4.69% (net of fees) over the quarter and 9.4% since inception. The mandate is an Absolute Return Fund (measures the gain/loss as percentage of invested capital) and therefore is not measured against a benchmark.

4.7. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)

a) In accordance with agreed procedures officers will only meet with representatives from GMO once in the year with the other meeting to be held with members. Officers met with representatives from GMO on the 3 November 2016, at which a review of their performance as at 30 September 16 was discussed. GMO last met with the members of the Pension Committee on the 16 June 2016 at which they covered the period ending up to 31 March 2016. At the request of GMO and the Committee, representatives from GMO will also make a presentation at this Committee, following concerns over performance.

b) The value of the fund increased by £3.06m over the last quarter.

c) The fund achieved a net return of 3.17% during the quarter and outperformed the benchmark for the quarter by 3.19%. Over the last 12 months GMO delivered a return of 4.94% outperforming the benchmark by 4.14%, and underperforming against inception by -1.70%.

d) The GMO investment is in a dynamic multi-asset fund, the GMO Global Real Returns UCITS Fund (GRRUF) and targets a return of CPI+5% (net of fees) over a full 7 year cycle. The Fund invests globally in equities, debt, money market instruments, currencies, instruments relating to commodities indices, REITS and related derivatives.

e) GMO philosophy is to buy undervalued assets with a long term view to assets returning to fair value.

f) The asset allocation within the portfolio was 43% Equities, 15% Alternative strategies, 7% Fixed Income and 35% Cash/Cash Plus.

g) The main portfolio’s change was a 10% increase in cash/cash plus. The movements in cash being from Fixed Income, GMO sold holdings in U.S. Treasury Inflation Protected Securities (TIPS) earlier in the year, which they felt had reached full value, so sold to take advantage of this, adding value to the fund.

h) The main performance contributor was emerging market equities, GMO said the portfolio reflected what was happening in the markets and world today. Last year's negative performance was driven by going into emerging markets too early, but their decision to remain has been shown to be the right one.

i) The Equity portfolio returned 6.3% for the quarter, contributing 2.9% to returns at the total portfolio level. Contributors were very broad based, including Semiconductors and Electronics in Taiwan, Financial and Information Technology in China, Financials in Korea (Samsung) and South Africa and Utilities and Financials in Brazil. In the US and Quality allocations, the contributions were mainly from the Information Technology sector, including Qualcomm, Microsoft, Apple IBM and Cisco.

j) Alternative Strategies returned 2% for the quarter, contributing 0.3% to returns at total fund level. Alternative Strategies represents diversifying ways to generate returns and are less sensitive to rising rates than stocks and bonds.

k) Cash had little impact on the portfolio performance this quarter.

l) As the allocation to cash at the end of this quarter represents 35% of the fund's assets we asked GMO if there is opportunity costs associated with retaining assets in cash and how long were they prepared to wait for opportunities to arise. They said that Cash represents an important 'dry powder' asset in an investment environment offering limited investment opportunity; they are prepared to be patient and wait quite a while for more favourable conditions in the investment market.

m) We asked GMO if they were concerned about any short term market fluctuations which may follow the US presidential election, and what steps have they made to protect the fund. GMO said that they don't have much exposure in the US, but if the markets fell they could use this opportunity to spend some of the cash allocation.

n) Given the fund will have an effective obligation to become a signatory to the UK Stewardship Code, we asked GMO to provide an overview of their Environmental, Social & Governance (ESG) principles and how they are incorporated into their investment process? GMO have not signed up to the UK Stewardship Code but said that they are in line with the principles of the code. They said that they do consider ESG principles which advise their investment decisions and have strong ESG screens on all elements of the portfolio. They also mentioned that they are looking to implement a Climate Change Fund at the end of next year. We asked how they exercise voting and engagement activity in relation to the equity assets held in the portfolio and they said that they outsource their voting policy and have a compliance team that review this regularly.

o) We asked GMO if there had been any further developments regarding them joining the London Collective Investment Vehicle (CIV). GMO said they are continuing to have discussions with the CIV, but the constraint to them qualifying to be considered is still that their management fees are too high. They are looking to see if they can develop a fund that would incur lower management fees but are not sure what this would look like at this stage.

p) 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 managers attending the meeting will be from:

  GMO (Multi Asset Manager), London CIV pooling operator (Baillie Gifford Global Alpha and Baillie Gifford (DGF) mandates) and State Street Global Assets (Passive Equities)

- 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 implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Royal London Quarterly report to 30 September 2016
UBS Quarterly report to 30 September 2016
Ruffer Quarterly report 30 September 2016
State Street Global Assets report to 30 September 2016
Baillie Gifford Quarterly Reports 30 September 2016
GMO Quarterly Report 30 September 2016
The WM Company Performance Review Report to 30 September 2016

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Agenda Item 12

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