Havering
LONDON BOROUGH

PENSIONS COMMITTEE
22 September 2015

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2015**
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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 June 2015

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 June 2015. 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 June 2015 was **-2.3%.** This represents an under performance of **-0.5%** against the tactical benchmark and an out performance of **3.5%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 June 2015 was **8.8%.** This represents an out performance of **1.2%** against the tactical combined benchmark and an under performance of **-8.7%** 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 Bonds Manager (Royal London) and from the Fund's Multi-Asset Manager (Ruffer).
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 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 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, inflations and expectations of future inflation have fallen meaning that the actual benefit cashflows 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 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.

1.6 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	➢ 50% iBoxx Sterling Non Gilt Over 10 Year Index ➢ 16.7% FTSE Actuaries UK Gilt Over 15 Years Index	0.75%

Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
		➢ 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	
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
GMO Global Real Return (UCITS) 20%	Multi Asset	OECDG7 CPI by +3 to 5% over the medium to long term-	To outperform the benchmark
Baillie Gifford – Diversified Growth Fund 15%	Multi Asset	UK Base Rate +3.5%	To outperform the benchmark

1.7 At the Pension Committee meeting held on the 23 June 2015 members agreed to adopt the FTSE RAFI 3000 Index in respect of 50% of the passive equity mandate managed by SSgA with the balance continuing to be managed against a market cap weighted index. Members agreed to rebalance the allocations between SSgA and Baillie Gifford so as to increase the weighting to the SSgA mandate to 12.5% of assets, such that the target 25% allocation to equities is split equally between the two managers. It was also agreed that to increase the return objective to 1.25% for the bond mandate (managed by RLAM) and allow the manager greater flexibility in the management of the mandate and the ability to invest a proportion of the mandate in higher yielding bonds. The table above will reflect these changes once the transfers have completed.

1.8 UBS, SSgA, GMO and 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.

1.9 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).

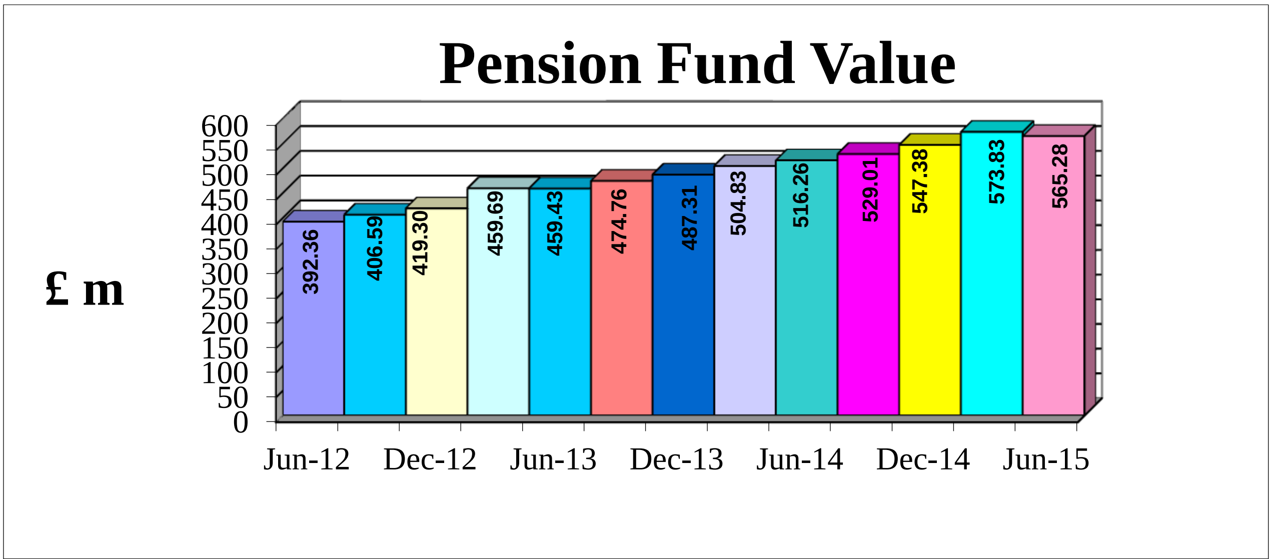
1.10 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure are the pooled Managers (SSgA, UBS, Baillie Gifford and GMO) and Ruffer who will attend two meetings 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.

1.11 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 Jun 15 was **£565.28m**. 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 £573.83m at the 31 Mar 15; a **decrease** of **£8.55m**. The movement in the fund value is attributable to a decrease in assets of £12.35m and an increase in cash of £3.80m. The internally managed cash level stands at **£11.02m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£11.02m** follows:

CASH ANALYSIS	**2013/14 31 Mar 15**	**2014/15 31 Mar 15 Updated**	**2015/16 30 Jun 15**
	£000's	£000's	£000's
Balance B/F	**-3474**	**-5661**	**-7599**
Benefits Paid	32552	33568	8057
Management costs	2312	1600	40
Net Transfer Values	-1131	-135	213
Employee/Employer Contributions	-45659	-35306	-13207
Cash from/to Managers/Other Adj.	9825	-1618	1494
Internal Interest	-86	-47	-15

Movement in Year	**-2187**	**-1938**	**-3418**
Balance C/F	**-5661**	**-7599**	**-11017**

2.3 As agreed by members on the 27June 2012 a cash management policy has now been adopted. The policy sets out that should the cash level fall below the de-minimus amount of £2m this should be topped up to £4m. This policy includes drawing down income from the bond and property manager.

2.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and officers are currently considering options available to address that the levels of cash exceed more than 1% of the fund assets. Officers are in the process of revising the cash management policy to reflect the current cash holding requirements and this will be submitted to the Pensions Committee at a later date.

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 30.06.15	**12 Months to 30.06.15**	**3 Years to 30.06.15**	**5 years to 30.06.15**
Fund	-2.3%	8.8%	11.6%	10.3%
Benchmark return	-1.8%	7.4%	9.3%	9.2%
*Difference in return	-0.5%	1.2%	2.1%	1.0%

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 30.06.15	**12 Months to 30.06.15**	**3 Years to 30.06.15**	**5 years to 30.06.15**
Fund	-2.3%	8.8%	11.6%	10.3%
Benchmark return	-5.6%	19.1%	8.3%	11.9%
*Difference in return	3.5%	-8.7%	3.0%	-1.4%

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 JUNE 2015)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	4.63	5.34	**-0.71**	5.15	**-0.52**
UBS	3.25	3.32	**-0.07**	n/a	**n/a**
Ruffer	0.41	0.10	**0.31**	n/a	**n/a**
SSgA	-5.06	-5.06	**0.00**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.13	0.09	**0.04**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	-4.90	-5.10	**0.20**	-4.48	**-0.43**
Baillie Gifford (DGF)	-0.70	1.00	**-1.70**	n/a	**n/a**
GMO	0.22	0.58	**-0.80**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	12.12	12.37	**-0.24**	13.12	**-1.00**
UBS	15.86	15.53	**0.33**	n/a	**n/a**
Ruffer	11.59	0.60	**10.99**	n/a	**n/a**
SSgA	10.13	10.16	**-0.03**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.51	0.36	**0.15**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	12.80	10.10	**2.70**	12.60	**0.20**
Baillie Gifford (DGF)	4.80	4.00	**0.80**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- GMO not invested for entire period

4. Fund Manager Reports

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

a) Representatives from Royal London are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 June 2015 follows.

b) The value of the fund as at 30 June 15 decreased by 4.59% on the previous quarter.

c) Royal London delivered a return of -4.63 over the quarter, outperforming the benchmark by 0.7%. The Fund is behind the benchmark over the year by -0.24%.

4.2. Property (UBS)

a) In accordance with agreed procedures officers met with representatives from UBS on the 20 August 2015 at which a review of their performance as at 30 June 15 was discussed.

b) The value of the fund as at 30 June 15 increased by 3.81% since the previous quarter.

c) UBS delivered a return of 3.2% over the quarter, slightly underperforming the benchmark by 0.07%. The Fund is ahead of the benchmark over the year by 0.33%.

d) The number of properties in the fund currently stands at 28 and a void rate of 7.14%, which is expected to fall, at the moment they are happy to have empty properties so that they can move tenants around in industrial units to maximise space and returns. Average property yield is currently 5.75%.

e) As at the date of the meeting there is 0.00% leverage (maximum of 10% permitted).

f) UBS were pleased to announce the new appointment of an Asset and Transaction Manager, Gijsbert van Riemsdijk originally joined GRE UK on a secondment from their Amsterdam office has now joined on a permanent basis.

g) Only one sale was completed over the quarter, a shopping centre in Ashford. The sale was consistent with UBS's strategy to divest the Fund from secondary shopping centres, and to sell assets with limited performance potential.

h) The Fund has purchased one new property this quarter, student accommodation in Newcastle upon Tyne; this was another off market purchase of brand new purpose built accommodation on a rare central city site in an established university city. The capital has already appreciated on completion. The forward purchase of a new office under construction in central London has now been completed, this was an off market purchase which has strong rental growth prospects. The property has increased in value since the original purchase price and rental space has increased in price.

i) During the quarter, transactions completed included a 25 year lease at Grand Junction Retail Park with Chiquito Ltd. The Fund also completed two 10 year leases at Meols Cop Retail Park in Southport with Halfords and Tops Tiles.

j) Performance was mainly driven by the Funds strategically overweight position in Central London and the industrial sector. UBS's current strategy is to retain its overweight position in retail warehousing, industrial and London offices and to increase its exposure to alternative real estate. The fund concentrates on dominant multi let assets in growth areas with long term asset management.

k) UBS indicated that they were investing in student accommodation as under its alternative sector strategy. They have already invested in this sector in Newcastle and are currently negotiating the purchase of a similar structure in Durham. They said the attraction of investment in the private rental section (residential properties to rent to students) is a good sustainable rental income, with very low voids and relatively low risks.

l) The new UBS Triton Supervisory Board met in July, main outcomes of the meeting included a cash flow and redemption update, confirming the current amount in the redemption queue and noting that a number of secondary market trades have reduced the queue from last quarter levels. They were presented with an overview of the property market which has seen a steady performance in Qtr.1 2015. There is to be a review of the current Valuation Advisor due to the ending of the current existing provider and this will take place during the following quarter. There will be a separate meeting to discuss fund restructuring due to an enquiry from an investor about whether to restructure as a Property Authorised Investment Fund (PAIF), however it is unlikely due to liquidity requirements. They also discussed staffing reviews and the procurement process.

m) We asked whether increased interest rates would affect the portfolio. UBS said that as they have no debt at the moment this would not affect them.

n) No whistle blowing issues or governance was reported.

4.3. Multi Asset Manager (Ruffer)

a) Representatives from Ruffer are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 June 2015 follows.

b) 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 24

June 2014 meeting at which their performance as at the end of March 14 was discussed. Officers met with representatives from Ruffer on 05 February 2015 at which a review of their performance as at 31 December 2014 was discussed.

c) Since officers last met with Ruffer in February 2015, the value of the fund has increased by 5.07%. In the quarter ending June 15 the value rose by 0.95%.

d) Ruffer delivered a return of 0.41% (net of fees) over the quarter, outperforming the benchmark by 0.31%. The Fund is ahead of the benchmark over the year by 10.99%.

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 met with the members of the Pension Committee on the 17 March 2015 at which they covered the period ending up to 31 December 2014. Officers met with representatives from SSgA on the 11 May 2015 at which a review of their performance as at 31 March 15 was discussed.

b) Pending consideration of options for an investment in Local Infrastructure the £11.5m is still invested in the SSGA Sterling Liquidity Fund.

c) The SSgA Sterling liquidity fund has outperformed the benchmark by 0.04% over the quarter. Since inception they have outperformed the benchmark by 0.13%

d) The SSgA Passive Equity mandate has performed in line with the benchmark over the quarter. Since inception they have underperformed against the benchmark by -0.02%.

e) At a previous meeting 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.

f) Hymans presented a paper to members on the options of switching indices on the 23 June 2015 and following a training session members agreed to transfer 50% of the assets held in the SSgA's Passive All World Equity Index to SSgA's Fundamental Index Global Equity Fund (adopting the FTSE RAFI 3000 Index).

g) At the same meeting members agreed to rebalance the allocations between SSgA and Baillie Gifford (Global Alpha) so as to increase the weighting to the SSgA mandate to 12.5% of assets. This will result in the target 25% allocation to equities split equally between the two managers.

4.5. Global Equities Manager (Baillie Gifford)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 20 August 2015 at which a review of their performance for their Global Equities Fund as at 30 June 15 was discussed.

b) The value of the fund decreased by 4.88% over the last quarter.

c) Baillie Gifford Global Alpha Mandate has outperformed the benchmark over the last quarter by 0.20% (net of fees) and outperformed the benchmark over the last year by 2.70% (net of fees).

d) Since inception the Baillie Gifford fund has increased by £32.8m

e) At the pensions Committee meeting held on the 23 June 2015 members agreed to rebalance the allocations between SSgA and Baillie Gifford so as to increase the weighting to the SSgA mandate to 12.5% of assets. This will result in the target 25% allocation to equities split equally between the two managers. £16.5m will be disinvested with Baillie Gifford and transferred to SSgA during August 2015.

f) Positive performance came from a wide range of stock contributors, with Royal Caribbean Cruises again making the strongest contribution followed closely by Naspers (South African Multi National internet and Media group). There were no major challenges over the past quarter apart from the continuing fall in oil and gas prices.

g) Detractors from performance mainly included companies in the Oil and Gas industries with Ultra Petroleum being the largest; however they continue to have confidence in this holding as it is very good operationally with a strong balance sheet.

h) Their fund positioning remains mainly unchanged over the past quarter, current positioning of the portfolio has holdings in Growth Stalwarts (strong Brands) 22.6%, Rapid Growth (fastest growth) 27.7%, Cyclical Growth (longer term performance) 34.4%, Latent Growth (stocks most out of favour with the markets) 14.1% and cash of 1.2%.

i) They purchased new stocks in Financial Engines, Zillow, HDFC, C.H.Robinson, MS&AD Insurance, and Banco Popular.

j) They Increased holdings in SAP, Alibaba, and CRH.

k) Completed Sales in British American Tobacco, Roche, Bunzl, Bank Negara Indonesia, Shandong Weigao, Norsk Hydro, Teradata, Jyske Bank and Tallow Oil.

l) They reduced holdings in Moody's, Naspers, Royal Caribbean Cruises, FLIR, Inpex and Samsung Electronics.

m) Turnover of stock remained low, they have not reduced holding in the largest detractors of the portfolio as they are mainly companies affected by the reduced oil prices, they have an optimistic view for these companies which are operationally going as they would like, with strong balance sheets.

n) Baillie Gifford has referred to the present time being a period of "rapid creative destruction, fuelled by the convergence of a host of dynamically evolving technologies". We asked why they believe this to be particularly strong at the moment. Creative destruction is a method where capitalism destroys a previous economic order to clear the ground for the creation of new wealth. In investment terms this means the demise of many high profile stocks i.e. Oil and Gas companies due to de-carbonisation, replaced by new energy technologies. Baillie Gifford actively look for innovative businesses they have made global discoveries of the early stages of new technologies.

o) Baillie Gifford mentioned the "de-carbonisation" of the portfolio in their quarterly report in terms of exposure to Oil and Gas companies; we asked if they monitor indirect carbon exposure such as the carbon impact of electricity use by companies in the portfolio. They said that yes they do and they take this very seriously, they highlighted climate change and a low carbon economy as a key theme for the years ahead. This quarter, they attended key policy events in Paris in the run up to the international climate negotiations and supported important industry research. They are actively managing the fund, and are looking specifically at the Oil & Gas industries with a ten year view of a movement away from energy systems dominated by fossil fuels, and the transition to a low carbon economy. They said that with this in mind, they are actively looking for new innovative technologies (disruptive champions) to replace them.

p) Baillie Gifford were asked what proportion of the overall fund is invested in "youthful, capital- light companies", and as these companies have typically higher valuations are they potentially more vulnerable in a broad equity decline. They said that large chunks of the rapid growth portfolio are investments in capital-light companies, i.e. internet, media companies. They have small holding in lots of incubator companies, expecting interest for the future, Naspers being an example. They do not see these companies as more vulnerable as in a decline of equity markets, they are cheaper and easier to sell having less capital (building, equipment etc.) to liquidise.

q) Baillie Gifford reduced holdings in Royal Caribbean and Nasper, the two strongest performers in the portfolio to take advantage of the strong share price. Both these stocks remain among the highest portfolio holding, we asked if these stocks are still attractive at the current price, or are they 'riding the momentum' to their large position sizes. They said that they are confident for the future of these holdings and that in particular Royal

Caribbean share price will continue to be strong, capitalising on the continuing low oil prices.

r) Overall, Baillie Gifford's outlook for the portfolio over the longer term is good, with a well-diversified portfolio of growth stocks underpinning potential for long term attractive returns. They have a wide range of investment ideas coming up through their investment process. They are excited about the emergence of disruptive champions and the growth opportunities of these innovative companies.

s) No governance or whistle blowing issues were reported

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 20 August 2015 at which a review of their performance as at 30 June 15 for the Diversified Growth Fund was discussed.

b) The value of the fund has seen a decrease in value of 0.71% over the last quarter.

c) Baillie Gifford Diversified Growth Mandate has underperformed the benchmark by -1.70% over the last quarter and has outperformed the benchmark over the year by 0.80%.

d) The main contributors to performance were listed equities and the active currency position.

e) The main detractor from performance came from Commodities.

f) The portfolio continues to be invested in a wide range of asset classes. The asset class returns were mixed over the quarter. Further economic progress in the US and Europe was offset by a weakening data from china, whilst market concerns increased at the end of the quarter due to Greece's missed IMF payment. They continue with cautious positioning while there remains volatility in the market, but remain confident in their ability to continue to meet the funds objectives.

g) Recent changes to asset allocation include a reduction to the Funds short Australian dollar exposure over the quarter; Baillie Gifford had seen this position as protection to the portfolio of further Chinese weakness. As this has come to pass and the Australian dollar has moved closer to its fair value, they reduced the size of the position.

h) During the quarter Baillie Gifford added more High Yield credit, the attraction being the spread over comparable duration government bonds, they therefore also opened a short position in German five year government bond futures. They also increased the allocation to European property – they bought a basket of (2%) of European commercial and residential properties – after an average 10% reduction in Real Estate Investment Trust (REIT) valuations. These REIT's have moderate leverage and offer an initial net yield of around 6%.

i) The listed Equity exposure is split so to favour Japan, Europe and the Emerging Markets over the US.

j) The allocation to equities has been increasing over the past few years and at its highest level since inception. We asked Baillie Gifford whether this is because of a bullish view of the equities market or a lack of opportunities elsewhere? They said the increased equities allocation was due to both these reasons; they are taking advantage of the strong equity market while there is a lack of opportunity elsewhere. They monitor the markets rigorously to minimise any potential losses. They have a good regional mix which they are comfortable with. They have reduced US holdings as they are now expensive in favour of Asian and Japanese equities; they said that the market could still go higher.

k) Baillie Gifford noted in terms of performance there have been no real surprises this quarter in the context of the Global economy. The positive and negative have negated each other smoothing out volatility.

l) The portfolio has a 10% allocation to emerging market bonds and we asked if this is in local currency, they said yes it was, so we asked what their outlook was for this allocation and emerging markets in light of Chinas recent devaluation of its currency. They said they did no hold any Chinese bonds, but in general for the emerging markets they expect a fall over the short term but long term forecast still looks good.

m) One of the recent detractors this quarter has been the funds exposure to precious metals; we asked if their original rationale is still valid for maintaining this exposure. They agreed that Platinum, Palladium and Gold have all fallen, whilst Gold fell modestly in value as a move towards higher US interest rates edged closer and concerns over rising inflation remains on the side lines. It was the fall in Palladium and Platinum that had the biggest impact. Both metals are used extensively in the car industry which suffered due to the slower Chinese growth and dented forecast sales for the world's fastest growing car market and whilst concerns over Greece has taken some of the momentum out of the European market they still feel that long term their position still holds.

n) No governance or whistle blowing issues were reported

<u>4.7. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)</u>

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. GMO met with the members of the Pension Committee on the 23 June 2015 at which they covered the period ending up to 31 March 2015.

Officers are scheduled to meet with representatives from GMO on the 5 November 2015.

b) A brief overview of their performance as at 30 June 2015 follows.
c) The value of the Fund as at the end of June 2015 has decreased by 0.22%.

d) The GMO mandate has underperformed the benchmark by -0.80% over the last quarter and underperformed the benchmark by -0.08% since inception.

4.8 WM Performance Measurers

a) Officers met with a WM representative on the 20th August 2015 who gave their annual presentation on the returns of the WM universe (all other LGPS funds) and how the Havering Fund performed compared to the universe. A summary of the major points for the 2014/15 returns are as follows:

b) WM universe is made up of 85 funds with a combined asset value of £200billion.

c) The benchmark for the universe was 13.2%.

d) The Havering Fund is now structured differently from the average fund as shown in the table below :

Asset Allocation	Universe	Havering
Equities	61	25
Bonds	17	17
Multi Asset	3	35
Cash	8	3
Alternatives	3	15
Property	8	5

e) Havering Pension Fund return was 13.3% and outperformed the universe benchmark by 0.1%.

f) Havering Pension Fund achieved an overall ranking for the year of 51st.

g) The performance can be attributed to the effects of asset allocation, with overseas equities (Japan in particular) and property making the greatest contribution, with strong bonds returns inflating liability values. Main detractors were the allocation of assets to multi asset and cash.

	2014/15	2013/14	3 Years	5 Years	10 Years
Fund Return	13.3	7.2	11.6	9.2	7.2
Benchmark (WM Universe)	**13.2**	**6.4**	**11.0**	**8.7**	**7.9**

Relative Return	0.1	0.7	0.5	0.4	-0.6
Ranking	**51**	**35**	**33**	**36**	**76**

h) WM also produced charts that show the relationship between the absolute level of return achieved and the risk taken in obtaining that return for the main assets classes. Chart showed that the Havering Pension Fund had achieved increased levels of return whilst maintaining a moderate risk level which is broadly in line with other funds in the WM universe.

i) WM summarised 2014/15 as a solid year of returns for the LGPS with strong equity/property returns boost asset values but equally strong bond returns inflate liability values. The Fund had a strong year on both absolute and relative basis. Over the long term the fund has outperformed the strategic benchmark and sits within the top third in the universe.

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:

Royal London (Bonds Manager) and Ruffer (Multi asset Manager).

- 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 June 2015
UBS Quarterly report to 30 June 2015
Ruffer Quarterly report 30 June 2015
State Street Global Assets report to 30 June 2015
Baillie Gifford Quarterly Reports 30 June 2015
GMO Quarterly Report 30 June 2015
The WM Company Performance Review Report to 30 June 2015