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MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
27 March 2012 (7.30 - 9.50 pm)

Present:

COUNCILLORS

Conservative Group	Eric Munday (Chairman), Damian White (Vice-Chair), Roger Ramsey and Georgina Galpin (In place of Melvin Wallace)
Residents' Group	Ron Ower
Labour Group	Pat Murray
Independent Residents Group	Jeffrey Tucker
Trade Union Representatives	John Giles (UNISON) and Andy Hampshire (GMB)

Apologies were received for the absence of Councillor Wallace.

All decisions were taken with no votes against.

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

50 MINUTES OF THE MEETING

The minutes of the meeting held on 20 December 2011 were agreed as a correct record and signed by the Chairman.

51 PENSION FUND AUDIT 2011/12

The Committee were advised that notification had been received from PricewaterHouseCoopers (PWC) that they would be submitting details of the Pension Fund Audit Plan for 2011/12 to the next meeting of the Committee on 27 June 2012.

The report was **noted.**

52 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.

53 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2011**

Officers provided the Committee with details of how the Pension Fund had performed in the quarter ended 31 December 2011. The net return represented an under performance against the combined tactical benchmark, and an underperformance against the strategic benchmark.

The overall net return for the year to 31 December 2011 also represented an under performance against the annual tactical combined benchmark and an underperformance against the annual strategic benchmark.

The Committee invited Simon Jones, from Hymans Robertson, the Fund's Pensions Advisers, to report on the performance of the individual Investment Managers.

(a) Hymans Robertson (HR)

HR informed the Committee that the European debt crisis had been the dominant theme in financial markets during the final three months of 2011. The drama continued unabated and at times came close to stretching the credibility of the euro project t to its limit. Politicians had struggled to agree a suitable policy response as political priorities and allegiances clashed with the needs of monetary union. The Prime Ministers of Greece and Italy were casualties of the pressure placed on Euro member states struggling with unsustainable levels of debt.

In the UK, the Chancellor presented the autumn statement in November. As expected, the essential message was one of continuing 'austerity', sluggish economic growth, public sector pay restraint and painful spending cuts. The Chancellor also announced that it would take two years longer than first proposed to eliminate the structural deficit. The Office of Budget Responsibility cut its forecast of economic growth for 2011, to just 0.9% (from 1.7% in March) and to 0.7% for 2012.

Despite all the negative news, equities and bonds each produced strongly positive returns. In the UK, the FTSE All Share index advanced 8.4% during the quarter; fixed interest government bonds returned 5.0% and index linked issues 8.4%. Of the major equity markets, only Japan produced negative returns.

Key events during the quarter:

Global Economy

• The Bank of England injected an additional £75bn into the economy through quantitative easing (after earlier stimulus of £200bn).
• The UK declined to participate in a plan for closer fiscal union across the European Union.
• Short-term interest rates unchanged in UK and US; reduced, in two stages, in the Euro zone.
• US central bank lowered the cost of short-term $ loans to European Central Bank, to ease liquidity concerns.
• Economic growth in major Asian markets impaired by weak external demand.

Equities

• Strong rebound after sharp falls during preceding quarter.
• The strongest sectors relative to „All World" Index were Oil & Gas (+7.0%) and Industrials (+2.0%); the weakest were Utilities (-4.4%) and Telecoms (-3.5%).

Bonds

• Long dated UK bond yields fell to levels not seen for 60 years as investors sought „safety".
• Italian ten year bond yield rose above 7% (highest level of Euro era) as debt concerns escalated.

High levels of debt in Europe and in the US threaten the stability of the global economy. Further tough and unpopular action is required to resolve the difficulties. In the meantime, no country is immune from the consequences of a failure to take decisive action.

HR raised no concerns regarding the performances of State Street, Ruffer or Royal London. They rate the UBS Triton Property Fund positively. Over the past year the Triton Fund was ahead of the benchmark, but over the three year period was behind benchmark. UBS had addressed the difficulties they had faced in 2008 and 2009 and were demonstrating a commitment to continue with their programme of selling assets at the most favourable time in the performance cycle. The sales had helped reduce the fund's void rate.

Standard Life were still causing concern. The Committee felt that nothing changed, despite continued poor performance the company's stance remained the same. It appeared that they were unable to cope with a volatile market and what was needed was a more balanced approach to the portfolio.

(b) Standard Life (SL)

Representatives from Standard Life attended the meeting to discuss their performance in quarter 4. However, they also took the opportunity to discuss performance in quarter 1 which had seen an improvement in performance. In response to questions from the Committee the representatives confirmed that it was not their intention to change the portfolio or strategy. In their opinion they believed the market would continue to rise.

SL admitted that they had suffered in 2008 and 2011 but they had belief that they would recover in Quarters 1 & 2 of 2012. They felt there was lots of opportunity to add value in the market.

The Chairman thanked Standard Life for their presentation.

(c) Royal London (RL)

Representatives from Royal London attended the meeting to discuss their performance in Quarter 4. They advised the Committee that at the end of 2011 the value of the portfolio was £104m, there had been a slight lose since with the value now standing at £103m.

The current market was challenging but RL were still outperforming the benchmark. The Committee had some concerns that RL were not performing as well as we would hope. HR advised the Committee that in their opinion RL were doing a reasonable job.

The Chairman thanked Royal London for their presentation.

(c) Miscellaneous

Officers drew the Committees attention to the change in asset manager. Following the termination of the mandate with the Global Equities Manager (Alliance Bernstein) in February 2011 the assets had been transferred to State Street Global Advisors pending further consideration of the investment strategy. Following the required tendering process the Committee at a special meeting on 15 December 2011, had agreed to award the Global Equity mandate to Baillie Gifford. The funding of this mandate would see an approximate reduction in holdings from the following pension fund managers:

- Standard Life by 4.5%;
- SSgA UK Equities by 4.7%;
- SSgA Global by 3.7%: and
- Approximately 4.2% from Royal London.

It was anticipated that the funds would be transferred to Baillie Gifford on 16 April 2012.

The Committee **agreed** the reduction in mandates as set out above.

Officers informed the Committee that internally managed cash balances needed to be supplemented as the current balance was just over £1m. Internal cash balances had been decreasing since 2009/10 and it was now necessary to take some action. As the Royal London mandate exceeded the target of 20% by 7.3% the committee **agreed** that £2m be disinvested from Royal London to supplement the internal cash balances.

Chairman

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