Havering
LONDON BOROUGH

PENSIONS COMMITTEE

AGENDA

7.30pm	Tuesday, 1 July 2008	Havering Town Hall, Main Road, Romford

Members 6: Quorum 3

COUNCILLORS:

Conservative Group (4)
Melvin Wallace - (Chairman)
Roger Ramsey - (V.Chairman)
Robby Misir
Robbie Benham

Residents' Group (2)
Clarence Barrett
Linda van den Hende

Trade Union Observers

(No Voting Rights) (2)
Brian Long (Unison)
Sean Ramsden (TGWU)

Admitted / Scheduled Bodies Representative (No Voting Rights) (1)
Vacancy

For information about the meeting please contact:
Norman Bond (01708) 432439
E-mail: Norman.Bond@havering.gov.uk

NOTES ABOUT THE MEETING

1. HEALTH AND SAFETY

The Council is committed to protecting the health and safety of everyone who attends meetings of its Committees.

At the beginning of the meeting, there will be an announcement about what you should do if there is an emergency during its course. **For your own safety and that of others at the meeting, please comply with any instructions given to you about evacuation of the building, or any other safety related matters.**

2. MOBILE COMMUNICATIONS DEVICES

Although mobile phones, pagers and other such devices are an essential part of many people's lives, their use during a meeting can be disruptive and a nuisance. Everyone attending is asked therefore to ensure that any device is switched to silent operation or switched off completely.

3. CONDUCT AT THE MEETING

Although members of the public are welcome to attend meetings of the Committee, they have no right to speak at them. Seating for the public is, however, limited and the Council cannot guarantee that everyone who wants to be present in the meeting room can be accommodated. When it is known in advance that there is likely to be particular public interest in an item the Council will endeavour to provide an overspill room in which, by use of television links, members of the public will be able to see and hear most of the proceedings.

The Chairman of the meeting has discretion, however, to invite members of the public to ask questions or to respond to points raised by Members. Those who wish to do that may find it helpful to advise the Committee Officer before the meeting so that the Chairman is aware that someone wishes to ask a question.

PLEASE REMEMBER THAT THE CHAIRMAN MAY REQUIRE ANYONE WHO ACTS IN A DISRUPTIVE MANNER TO LEAVE THE MEETING AND THAT THE MEETING MAY BE ADJOURNED IF NECESSARY WHILE THAT IS ARRANGED.

If you need to leave the meeting before its end, please remember that others present have the right to listen to the proceedings without disruption. Please leave quietly and do not engage others in conversation until you have left the meeting room.

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. DECLARATION OF INTERESTS

Members are invited to declare any interests in any of the items on the agenda at this point of the meeting. Members may still declare an interest in an item at any time prior to the consideration of the matter.

4. MINUTES OF THE MEETINGS

To approve as a correct record the minutes of the meeting held on 18 March 2008 and the special meetings held on 13 May and 9 June, 2008, and authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING REPORT FOR THE QUARTER ENDED 31 MARCH 2008

6. URGENT BUSINESS

Cheryl Coppell
Chief Executive

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford

18 March 2008 (7.30pm – 9.30pm)

Present:

COUNCILLORS:

Conservative Group	Councillors: Melvin Wallace (Chairman), Robert Benham, Roger Ramsey and + Frederick Thompson
Residents Group	Councillors: Clarence Barrett and Linda van den Hende
	+ Substitute Members : Frederick Thompson (for Bobby Misir)

Apologies were received from Cllr Bobby Misir and Mr Brian Long (Unison)

The Chairman advised everyone present of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

Cllr Thompson declared a possible personal interest.

23. **MINUTES**

Following minor amendment the minutes of the meeting held on 18 December 2007 and special meeting of 12 February were agreed as a correct record and signed by the Chairman.

24. **ANNUAL REPORT OF THE COMMITTEE 2007/08 AND ANNUAL PLAN AND TRAINING PROGRAMME 2008/09**

The Committee **noted and agreed** the recommendations contained in the officer's report**.**

Members completed the self assessment form (Appendix D).

25. **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2007**

The Committee was given a **presentation by Standard Life Investments (SLI)** portfolio managers. Members received notes to accompany the presentation.

Representatives of SLI referred to the considerable volatility currently being seen in equity markets around the world. The UK market alone having lost 9%

in January. This situation has arisen out of the US sub-prime crisis that is feeding recessionary pressures into the US markets. The portfolio managers informed Members of today's US interest rate cut in the 'FED' of ¾%.

The managers highlighted those stock in their portfolio that had performed well and those that had performed poorly. They expanded on the comparisons between the 2007 – 3rd and 4th Quarter outcomes (Q3 & Q4) and the 2007 year as a whole, emphasising that during Q3 markets had been very consumer exposed and falls had been seen. These continued in Q4 within the industrial sectors.

The negative values and under performance elements of the portfolio were discussed, with the managers admitting that SLI's portfolio had under performed the market in 2007. The portfolio managers advised the Committee of their regular discussions with senior managers of under performing stock companies to ensure they were fully aware of all their internal and external trading pressures. The risks surrounding stocks that had performed well were also highlighted within the recent portfolio activity.

In response to Member's questions SLI confirmed that they are increasing the portfolio's weight with financial sectors, believing banks to have good long term growth prospects. They commented that while the US loan market is difficult, many UK banks have very large deposit business bases and the markets have over-reacted to the effects that the current lack of inter-bank liquidity in this sector may have. The portfolio managers informed Members that they had recently sold the holding in Lloyds Bank, but 'HBOS' and 'RBS' were their favoured banking stocks and they intended to gradually increase the weighting toward these in the portfolio. Another stock that had performed well was Xstrata and therefore its weighting had also increased.

SLI also confirmed that their portfolio has seen a loss in value over the period from 30 September 2007 to 27 February 2008. Since inception SLI had out performed the benchmark by ½% but remained 1½% below their target.

The Committee **considered and noted** the presentation report and performance summary figures.

The Chairman thanked the representatives of Standard Life Investments for the presentation and their explanations of the issues surrounding the figures provided.

The Committee was given a further **presentation by Royal London Asset Management (RLAM)** portfolio managers. Members received notes to accompany the presentation.

Representatives of RLAM initially raised the issue of market volatility and general under-performance. The meeting heard that current inter-bank rates had worsened since the end of the 4th Quarter (Q4) and now stood at 6%.

Their was also a general unwillingness to lend. Given that inter-bank lending could fund as much as 50% of some bank's loan books, bank lending is retracting notwithstanding the bank of England cuts in base rate.

RLAM explained their use of UK Government Bonds; UK Retail Bonds and Capital or Financial Bonds. The latter of these, (Financial Bonds) being effected by event in the US. The managers drew to Members attention to the converse effect the credit weakness was having on some bond markets where subordinated bonds offered almost double the yield of similar government ones.

Referring to Monocline insurance company concerns, the meeting was informed that RLAM's Havering portfolio does have some secondary exposure to stock supported by these companies, but this was not thought significant and will be monitored.

RLAM conceded that in hindsight the portfolio's underweight position in government and supranational bonds had been a mistake and led to under-performance. Market movements have forced RLAM performance down to the benchmark.

A greater explanation of the returns obtained in Q4 from Sterling Credit Bonds, UK Conventional Government Bonds and Index Linked Bonds was given to Members.

An under-performance of 0.8% (net of fees) was seen in Q4.

Members attention was drawn to the top 10 contributors and the top 10 detractors to the portfolio.

The Committee were reassured that the use of 'unrated' bonds should not be cause for alarm as the majority of these had been collateralised.

RLAM also confirmed that the profile of the Index Linked Gilts was similar to the benchmark.

Mention was made of today's US interest rate (Fed) reduction of ¾% that had caused US stocks to rally. Members were informed that the US authorities have taken very drastic action to provide liquidity in the system but RLAM stated care needed to be taken in weighing liquidity against liability in market sentiments.

The Slow down in the UK economy, manager's thought, would take the edge off inflationary pressures.

In response to members questions RLAM advised the Committee that it felt some very good opportunities will exist once the current tough situation is over. They anticipate growth rising 1½% in 2008, UK base rate reducing to 4½% and any inflation being a short-term issue which the slow down in growth will stabilise. Medium term deficits are expected to be dwarfed by excess yields received. RLAM expect the valuation yield of debt on bonds could be 12% -13%, providing very attractive returns.

Members were told the value of the portfolio had fallen since the end of Q4.

The Committee **considered and noted** the presentation report and performance material provided.

The Chairman thanked the representatives of Royal Life Asset Management for the presentation and their clarification of the background issues.

In the absence of Hymans Robertson's representative the Committee **deferred** receiving their presentation

26. **URGENT BUSINESS**

The Committee were advised that central government consultation documents are being received relating to pension issues. Responses are required outside of the committee timescales.

Resolved: Delegation be provided to the Group Director for Finance and Commercial Services to respond on the Council behalf. The Group Director agreed to circulate consultations to all Committee Members* by e-mail and liaise with the Committee Chairman before providing a response on the Council's behalf.

* Councillor Barrett declared an interest in the informal consultation on Sustaining the Local Government Pension Scheme as he is a current LGPS contributor and requested not to be involved in the Council consultation responses'.

MINUTES OF A SPECIAL MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford

13 May 2008 (1.00pm – 2. 50pm)

Present:

COUNCILLORS:

Conservative Group	Melvin Wallace (in the Chair), Robert Benham, +Steven Kelly + Substitute Members : Steven Kelly (for Roger Ramsey)
Residents Group	Clarence Barrett and Linda van den Hende

Apologies for absence were received from Councillors Robby Misir and Roger Ramsey

The Chairman advised everyone present of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

There were no declarations of interest

27. INVESTMENT STRATEGY REVIEW – Presentation by Hyman Robertson

A presentation outlining the considerations required to progress the Investment Strategy Review was given to the Committee by the Pension Fund's Investment Advisors, Hyman Robertson. (copy attached)

The Investment Advisor advised Members that the key aspect will be to tie in and try to align investments that compliment the scheme's liabilities. The previous adopted investment strategy provided a very different profile from that of most local authorities. Later within the current review process, consideration will need to be given to the best managers for each asset class and how any changes can be managed.

Four key principles were highlighted as essential considerations for Members to weigh according to the expected outcome. These were 'Prudence', 'Affordability', 'Stewardship' and 'Stability'. A summary of the expected rates of return, with year one volatility percentages, was explained. The Committee noted that whilst equities were expected to produce a greater return than cash or bonds, they remain more volatile. Currently longer term gilts are producing a lower return than cash. It was suggested that alternative investment classes could be explored during the investment strategy review.

From a starting point of the last Fund valuation (March 2007), using economic modelling, eight scenarios were offered to the Committee to demonstrate a broad picture of the possible asset allocation splits available. This used broad accepted market assumptions and expectations.

The Investment Advisors drew to members attention the use of alternative investment classes within scenario 2 and the Council's current position being approximately reflected in scenario 5. Additionally the Investment Advisors informed the Committee that cash was not seen as a good long term investment notwithstanding that it was currently out performing some gilts. The proposed alternative investments can involve the use of Equities, Currency, Commodity and Hedge funds, within an investment package

The results of the modelling process presented by the Investment Advisors, measured 5,000 simulations for each scenario. Assumptions used in the modelling included, for the employers contributions to stay the same and assets out performance of gilts + 1.5%, the funding level to be no less than the current level of 68% and the period of spreading surpluses/deficits is fixed at 25 years. It was drawn to the Committee attention that actuaries will find it difficult to sign off valuations where assumptions for growth of more than 2% above gilts are needed.

The Investment Advisors stressed the need for a balanced approach to the four key principles. The modelling had produced two scenarios which took a more defensive position than the current investment strategy employed by the Council and four that had a higher exposure to risk. Members attention was drawn to scenarios 2, 3 and 4 within the presentation.

The initial conclusions presented to the Committee were that scenarios 7 and 8 (low risk options) were unattractive and scenario 6, which does not employ the 'smoothing mechanism' failed the stability test. Scenarios 1 - 4 were all worthy of consideration on the test of the four key features. Scenario 2 was preferred as it offered a projected liability cover median of 89%, with lower and upper 16th percentiles of 53 - 55% and 120% - 145% respectively.

Members' requested greater clarity as to how the proposed 15% of alternative investments contained in scenario 2 was to be invested. The Investment Managers replied that a careful approach to alternatives is necessary and whilst they were not a fan of Hedge Funds in general, some may offer benefits. This will be explored more fully in the next part of the Investment Strategy Review process. The Investment Advisors also confirmed that the cost of switching from bonds to equities will bear a cost and the case for moving should provide greater tangible benefits. They did however feel there was now merit in changing the Fund's strategy to take on a little more risk.

The Investment Advisors asked the Committee to note that their presentation did not take account of manager performance and this will need to be considered as part of the final stage of the current review.

The Chairman thanked the Investment Advisors, Hymans Robertson for their detailed presentation.

The Committee **noted** the Investment Advisors presentation**.**

The Committee **agreed** that the Investment Advisors, in liaison with Council officers, should take the process forward, exploring strategies based on scenarios 2,3 and 4 of the presentation. The Investment Advisors were also requested to supply their own opinion on the optimum asset mix and strategy.

MINUTES OF A SPECIAL MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford

9 June 2008 (1.00pm – 3. 00pm)

Present:

COUNCILLORS:

Conservative Group Roger Ramsey (in the Chair), Robert Benham, Robby Misir, +Georgina Galpin

+ Substitute Members : Georgina Galpin (for Melvin Wallace)

Residents Group Linda van den Hende

Apologies for absence were received from Councillors Melvin Wallace and Clarence Barrett

The Chairman advised everyone present of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

There were no declarations of interest

27. INVESTMENT STRATEGY REVIEW (Phase two) – Hyman Robertson

A presentation outlining the second phase of the Investment Strategy Review was given to the Committee by the Pension Fund's Investment Advisors, Hyman Robertson. (copy attached)

The Investment Advisor reminded Members of the investment structure modelling that had suggested an increased exposure to equities to increase returns, but could also bring added risks.

The Committee was briefly taken through three scenarios from the Investment Advisors phase one presentation. (Scenarios 2, 3 & 5). Scenario 5 approximately mirrored the fund's present strategy, scenario 3 showed a 20% move from bonds to equities and scenario 2 had smaller percentage move from bonds to equities, but also included a further reduction of the bond investment, which it was proposed could be invested in alternatives. Scenario 2 was displayed in three options with 2b having a greater weighting towards overseas equities and less to UK equities, and scenario 2c proposed 50% of the overseas equity exposure be hedged for currency fluctuations/returns.

The Investment Advisors drew to Members attention to the longer term nature of the Pension Fund's objectives and stated that it should be able to overcome short-term market volatility. The use of selected alternative investments in the asset mix, could be used to dampen the effect of the overall investment volatility.

The Fund's current longer term targets are gilts +3% (net). A forecast of Pension Fund returns was provided.

Members' were shown tables for the current and proposed management structures of the Fund. Options as to a future structure were outlined for scenarios 2 and 3. Each option provided a schedule detailing an increase in existing management equity weightings and introduced the use of a passive manager for the UK equities and a separate manager of the global equities.

Concern was raised as to the benefits that would be derived from diversifying a proportion of the Fund's assets to yet another manager and the costs payable. Members also expressed a tentative stance regarding the use of alternative investment funds. The Investment Advisor informed the Committee that some hedge funds had existed for 'the medium term' and are now a lot less risky than were portrayed in the media. It will be necessary to use an appropriate hedge/alternative funds that compliment the funds existing equities.

The Investment Advisors also confirmed that the two scenarios modelled had been 'done on a fairly aggressive basis'. A more cautious approach could be taken, possibly with 60% in equities with a 5% alternative allocation as a first step. Care would need to be taken regarding the costs involved in any changes.

Members expressed reluctance to move from a managed situation to a passive manager notwithstanding that some cost advantages could potentially emerge.

Further consideration will be given to manager performance at the next stage of the Investment Strategy Review process. The Committee were also advised that the costs of removing a manager was approximately 1% of asset value.

Members requested a list of alternative investment managers for the next meeting. It was also thought preferable to develop a form of transitional strategy, including the use of a transitional manager, provided the costs could be justified. The balance of cost and procurement is thought to be fine.

Discussion was undertaken as to whether a move straight to a 70% equities weighting was the best option to reduce costs. Committee Members stated they were not comfortable with such a move.

It was proposed that the Investment Advisors provide options around an asset mix of 60% equities, 25% bonds, 10% property and 5% alternatives. Additional information on the type of alternative product and manager involved was requested for the next meeting.

The Investment Advisors were asked to include in their report for the next Investment Strategy Review meeting, the steps already taken by the Committee in the review process, the modelling outputs, the cost and mechanics of any procurement and to revisit the strategic targets to ensure these remained sustainable.

The Chairman thanked the Investment Advisors, Hymans Robertson for their detailed presentation.

The Committee **noted** the Investment Advisors presentation**.**

Havering
LONDON BOROUGH

MEETING	DATE	ITEM
PENSIONS COMMITTEE	**1st JULY 2008**	**5**

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31ST MARCH 2008

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31st March 2008. 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 31st March 2008 was **-6.6%**. This represents an under performance of **-1.1%** against the combined tactical benchmark and an underperformance of **-7.2%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31st March 2008 was **-5.9%**. This represents an underperformance of **-3.6%** against the annual tactical combined benchmark and an underperformance of **-13.0%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007 and renewed fears of a financial market crisis led to market falls during quarter 1. Whilst central banks moved to solve problems through rate cuts and cash injections, it remains to be seen what further action will be required given the pressures of inflation.

Members are currently reviewing the fund's investment strategy and re-evaluating the current asset allocation.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark as they became active on the 14th February 2005. These results are shown later in the report.

RECOMMENDATION

That the Committee:

1. Considers Hymans performance monitoring report and presentation (Appendix A).
2. Receives presentations from the funds Global Equities Manager (Alliance Bernstein) and the Global High Yield Bond Manager (Westerns).
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.
7. Notes the analysis of internal cash balances (paragraphs 2.2)

REPORT DETAIL

1. Background

1.1 A major restructure of the fund took place in the first quarter of 2005. The transition of the assets to the transition manager's account happened in mid-January 2005, with the 5 new managers taking charge of the assets from 14th February 2005.

1.2 As part of the Statement of Investment Principles a strategic benchmark was adopted for the overall Fund of Gilts + 3.6% gross (3% net) per annum. This is the expected return in excess of the fund's liabilities over the longer term. The main factor in meeting the strategic benchmark is market performance.

1.3 Individual manager performance and asset allocation will determine the outperformance 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. The tactical benchmarks are shown in the following table:

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target (net of fees)
Standard Life 30%	UK Equities	FTSE All Share Index	2%
Alliance Bernstein 20%	Global Equities	MSCI All World Index	2.5%
Royal London Asset Management (RLAM) 30%	Investment Grade Bonds	• 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	0.75%
Westerns 10%	Global High Yield Bonds	Gilts	3.0% (gross)
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	n/a

1.4 Both Western Asset and UBS manage the assets on a pooled basis. Standard Life, Royal London and Alliance Bernstein 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.

1.5 Since the Quarter 3 (September 06) Report, 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).

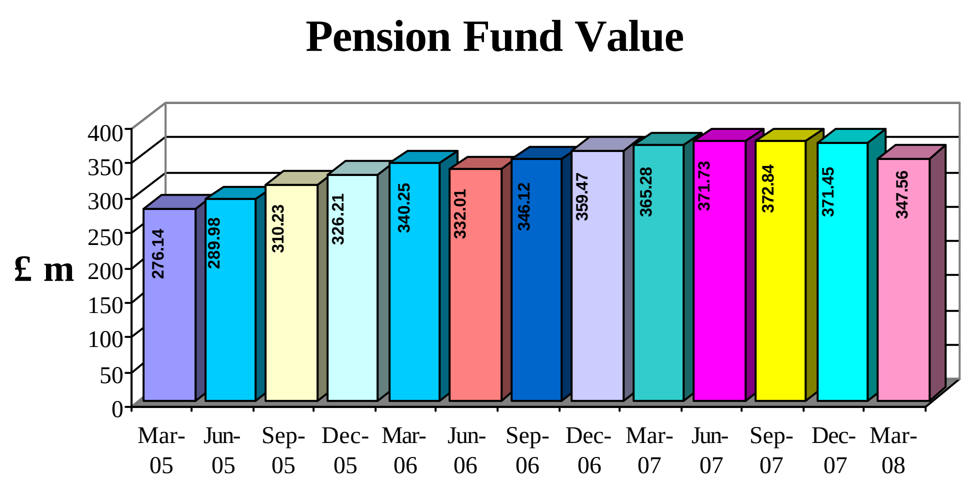
1.6 Managers are invited to present at the Pensions Committee Meeting every 6 months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. Managers who are to make presentations to this Committee are:

- Global Equities Manager (Alliance Bernstein)
- Global High Yield Bond Manager (Westerns)

1.7 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 31st March 2008 was **£347.56m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £371.45m at the 31st December 2007; a decrease of **(£23.9m).** The decrease in the fund value is attributable to fund performance, resulting in a decrease of (£25.8m) and an increase in internal cash of £1.9m. The internal cash level totals £7.1m, of which an analysis follows in this report. The Quarter 1 performance is also outlined in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of £7.1m (as at 9 April 08) follows:

CASH ANALYSIS	**2004/05**	**2005/06**	**2006/07 (Revised)**	**2007/08**
	£000's	£000's	£000's	£000's
Balance B/F	**115**	**-792**	**-3052**	**-3706**
Benefits Paid	17926	19286	20886	22881
Management costs	825	1435	1592	1864
Net Transfer Values	1979	962	-1341	-2409
Employee/Employer Contributions	-19195	-21777	-23536	-25439
Cash from/to Managers	-2462	-2114	1945	0
Internal Interest	20	-52	-200	-245
Movement in Year	**-907**	**-2260**	**-654**	**-3348**
Balance C/F	**-792**	**-3052**	**-3706**	**-7054**

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) is shown below:

	Quarter to 31.03.08	**12 Months to 31.03.08**	**3 Years to 31.03.08**	**5 years to 31.03.08**
Fund	-6.6	-5.9%	7.3%	10.8%
Benchmark return	-5.6	-2.4%	7.4%	11.3%
*Difference in return	-1.1	-3.6%	-0.1%	-0.4%

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 + 3% per annum) is shown below:

	Quarter to 31.03.08	**12 Months to 31.03.08**	**3 Years to 31.03.08**	**5 years to 31.03.08**
Fund	-6.6	-5.9%	7.3%	10.8%
Benchmark return	0.7	8.1%	7.8%	11.6%
*Difference in return	-7.2	-12.9%	-0.4%	-0.7%

Source: WM Company

* Totals may not sum due to geometric basis of calculation and rounding.
As the fund has only been under its new arrangements since February 2005, historical performance greater than one year is no reflection of the new strategy.

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 31st MARCH 2008)

	Standard Life	**Alliance Bernstein**	**Royal London**	**Western Asset***	**UBS**
Return (performance)	(8.9)	(11.8)	(1.8)	(4.9)	(3.1)
Benchmark	(9.9)	(9.1)	(1.3)	(0.1)	(3.9)
****Over/(Under) Performance vs Benchmark**	**1.00**	**(2.6)**	**(0.5)**	**(4.8)**	**.8**
TARGET	(9.4)	(8.5)	(1.1)	0.1	n/a
**** Over/(Under) Performance vs Target**	**0.5**	**(3.2)**	**(0.7)**	**(5.5)**	**n/a**

Source: WM Company, Fund Managers and Hymans

* Performance is gross to reflect the benchmark and target

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

ANNUAL	Standard Life	Alliance Bernstein	Royal London	Western Asset*	UBS
Return (performance)	(10.2)	(7.3)	0.8	(2.1)	(10.9)
Benchmark	(7.7)	(2.5)	2.9	5.1	(11.5)
****Over/(Under) Performance vs Benchmark**	**(2.6)**	**(4.8)**	**(2.1)**	**(7.2)**	**0.6**
TARGET	(5.7)	0.1	3.6	8.1	n/a
**** Over/(Under) Performance vs Target**	**(4.4)**	**(7.2)**	**(2.8)**	**(10.2)**	**n/a**

Source: WM Company, Fund Managers and Hymans

*   Performance is gross to reflect the benchmark and target

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

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

a) In accordance with agreed procedures officers met with representatives from Standard Life on the 7th May 2008 at which a review of the quarter 1 (January to March 08) performance was discussed.

b) The value of the fund as at 31 March 2008 has seen a decrease of 8.78% since December 07. Since inception the fund value has increased by 32.89%. Standard Life reported at the meeting that the value of the fund has since increased by 7.9% for the end of April. Standard Life was requested to provide a further update of the fund value for the committee meeting being held on 1 July, which they are happy to provide verbally. However it should be noted that high levels of volatility still exist and relative to bonds, UK equities are now below the valuation level that they reached in the 1970s. Standard Life has said that they underestimated the scale of how banks were affected by the ‘credit crunch’ and the impact of interest rate cuts not being passed on by the banks.

c) Standard Life outperformed the benchmark in the quarter by 1.0% and outperformed the target in the quarter by 0.5%. Since inception they have outperformed the benchmark by .8% but underperformed the target by -1.2%.

d) Top contributors came from Automobiles, Chemicals and Industrial Engineering sectors, which rebounded after a weak 4th Quarter. Retail and Leisure sectors underperformed on the back of a weakening of consumer outlook, although Standard Life says that Consumer stocks are starting to bounce back.

e) Positive contributions came from being overweight in Mining and Industrial Engineering but were negatively impacted by some of its individual positions in the financial sector.

f) The Royal Bank of Scotland was again a mayor detractor from performance and a discussion then followed regarding the Rights Issue, which is now going ahead. Standard Life more comfortable with their holdings in the financial sector as bank margins are improving and there have been reduced mark downs on write downs.

g) The portfolio activity during Quarter 1 were as follows :
- Bought: BHP Billiton (switching from Rio Tinto), Michael Page/Hays and Cookson.
- Sold: RioTinto (Sold out to Chinese), BG and GlaxoSmithKline (due to continued disappointment over drug pipeline delays.

h) Standard Life has slightly trimmed their overweight position in mining stocks but is maintaining positions in cyclical stocks as they believe the economy will hold, albeit slow.

i) Standard Life also believes that the US is starting to look better and this brings confidence in the UK as UK timings are slightly behind the US.

j) There were no governance or whistle blowing issues to report.

<u>4.2. Global Equities (Alliance Bernstein)</u>

a) Representatives from Alliance Bernstein are to make a presentation at this Committee, therefore a brief overview of the quarter 1 performance follows:

b) The Market Value of their portfolio decreased by 11.63% since December 07 but since inception has risen by 42.31%.

c) In Quarter 1 Alliance Bernstein underperformed the benchmark by -2.6% (net of fees) and underperformed the target by -3.2 % (net of fees). Since inception they are -.1% below benchmark (net of fees) and -2.5% below the target (net of fees).

d) Alliance Bernstein's Global Style Blend portfolios underperformed amid a widespread flight from risk. While their sector positioning was a plus, stock selection was weak, particularly in finance. Currency selection also detracted modestly.

<u>4.3. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)</u>

a) In accordance with agreed procedures officers met with representatives from Royal London on the 7th May 2008 at which a review of the quarter 1 (January to March 08) performance was discussed.

b) The value of the fund as at 31 March 2008 decreased by 2.21% since December 07. Since inception the fund value has increased by 15%.

c) Concerns were raised with Royal London on the accuracy of the valuation on the basis as to whether there was enough transaction activity in the credit issues held across the portfolio to enable accurate prices to be determined, to which Royal London stated that they were confident that prices were reflective of the market.

d) Royal London underperformed the benchmark for the quarter by -0.5% and underperformed against the target for the quarter by -.7%. They underperformed in the last 12 months by -1.9%. Since inception they are -.3% behind the benchmark and -1.0% behind the target.

e) Royal London has stated that quarter 1 was the worst of the quarters effected by the 'credit crunch'.

f) Royal London reported at the meeting that performance was up in April by approximately .4% over the benchmark mainly due to pressure being taken off the bond market by the injection of £50bn by the Government and the benefit of the Rights Issue. Royal London see the main risk in the non finance bonds so have been moving away from these. In Quarter 2 they are hopeful that they will sustain gains in April and make some claw back.

g) Asset allocation of the fund during the quarter was 48.8% Sterling Credit Bonds, 31.5% UK Index Linked, 19.6% UK Conventional Government Bonds and 0.2% cash.

h) The main reason for the underperformance was a bias towards subordinated financial debt, though the underweight position in index-linked gilts also detracted.

i) Sterling credit bonds which were the main detractor from performance and the main contributor to performance in this quarter were UK Government Bonds.

j) Sterling Credit Bonds were reduced during the quarter and switched to Government Bonds. Royal London is looking to further reduce the allocation in Sterling credit bonds. Royal London is also reducing their long dated bonds by moving to more European bonds.

k) Royal London sees value in unrated bonds, and believes these offer support in volatile markets.

l) Royal London action to market conditions with constant reassessment are that they:

- Increased Gilt exposure
- Reduced exposure to lower rated non- financials
- Held management meetings with building societies
- Reviewed UK & Irish bank exposure
- Reviewed monoline exposure and underlying assets, which they believe represent good value, in particular utilities.

m) Royal London explained that monoline wrapped bonds are bonds issued with insurance to offer some protection so that if a company gets into trouble those bonds monoline wrapped will be paid out first. The trade off is a lower rate of return but less risk.

n) There were concerns that insurance companies started to insure sub prime, so monoline was under pressure in the market over concerns that the guarantee may become worthless. Inconsistent approach from rating agencies further muddied water. This has put AAA ratings under pressure which Royal London believes is misguided.

o) Royal London strategy is that they don't just buy bonds because wrapped by monoline but because they make an assessment of the underlying assets (i.e. Utilities, which they believe represent good value but by being monoline wrapped offers protection).

p) There were no governance or whistle blowing issues to report.

4.4. Global High Yield Bonds (Westerns)

a) Representatives from Westerns are to make a presentation at this Committee, therefore a brief overview of the quarter 1 performance follows:

b) The value of Westerns portfolio decreased by 4.96% since December 07. Since inception Westerns' fund value has risen by 6.83%.

c) Westerns underperformed the benchmark by -4.8% and the target by -5.5% in quarter 1. Since inception Westerns have underperformed the benchmark by -1.9% and underperformed the target by -4.9%.

4.5. Property (UBS)

a) In accordance with agreed procedures officers met with representatives from Royal London on the 7th May 2008 at which a review of the quarter 1 (January to March 08) performance was discussed.

b) The value of the UBS Triton Property Fund as at 31 March 2008 has seen a decrease of 12.76% since their last report to members as at 30 September 07. The fund value has increased since inception by 5.35%.

c) UBS outperformed the benchmark in the quarter by .8% and outperformed the benchmark by .6% over the last 12 months and the gap in performance over three and five years is narrowing. An overweight position in the London and South East offices sector will have been beneficial but still some uncertainty as price falls have continued in the quarter.

d) The major contributor to the quarter performance was attributable to a significant letting at Milton Gate.

e) UBS is continuing sale of assets and part of the proceeds will be used to meet redemption requests. UBS are also dipping into the funds overdraft facility to provide the fund with new capital to pay for redemptions pending sales and to provide capital for new projects and to reposition Sector Weightings.

f) UBS is currently overweight in the Retail and London & SE office sector but are planning on reducing these. Sales in the South East of approximately £160m will fund the redemptions.

g) UBS were asked what the latest position is with regard to un-let properties and they are at 14%, down from 19% and are hopeful that this will reduce further over the coming year.

h) UBS believe that optimism will return by Quarter 3 or 4, all things being equal but there will not be a greater level of transactions.

i) The Budget on the 12 March 2008 confirmed the intention to introduce legislation to amend the provisions in the Finance Act 2007 that gave rise to the Duty Land Tax (SDLT) charge on redemptions and subscriptions. This legislative change should be part of the Finance Act 2008 which is expected to become law in July 2008, and applied retrospectively. This should broadly restore the position of the funds to that prior to the Finance Act 2007. UBS will be monitoring the progress of the legislation.

j) There were no governance or whistle blowing issues to report.

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 is available for scrutiny in the Members Lounge.

2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.

3. Receive quarterly information from the Investment Managers, detailing new Investments made.

   - Points 1 and 3 are contained in the Managers' reports.

   - With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room 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:

    Alliance Bernstein and Westerns

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

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:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

Staff Contact: Debbie Ford
Designation: Pension Fund Accountant
Telephone No: 01708 432569
E-mail address: debbie.ford@havering.gov.uk

CHERYL COPPELL
Chief Executive

Background Papers List

Standard Life Quarterly report to 31st March 2008
Alliance Bernstein Quarterly report to 31st March 2008
Royal London Quarterly report to 31st March 2008
Western Asset Quarterly report to 31st March 2008
UBS Quarterly report to 31st March 2008
The WM Company Performance Review Periods to 31st March 2008
Hyman's Monitoring Report to 31st March 2008