



Haverling

L O N D O N B O R O U G H

SPECIAL PENSIONS COMMITTEE

AGENDA

3.30pm

Tuesday,
10 February 2009

Haverling Town Hall,
Main Road, Romford

Members 7: 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

Independent

Residents (1)

Jeffrey Tucker

Trade Union Observers

(No Voting Rights)

(2)

Brian Long (Unison)
Sean Ramsden (TGWU)

Admitted / Scheduled Bodies Representative

(No Voting Rights)

(1)

David Holmes

For information about the meeting please contact:

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NOTES ABOUT THE MEETING

7. 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.**

8. 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.

9. 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. PENSION FUND REVIEW – report attached

5. 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.

6. 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 7 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.

7. CONSIDERATION OF REPORTS CONTAINING EXEMPT INFORMATION

Cheryl Coppel
Chief Executive



| MEETING | DATE | ITEM |
|--------------------------------------|--------------------------------|----------|
| PENSIONS COMMITTEE (SPECIAL MEETING) | 10 th FEBRUARY 2009 | 4 |

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND OVERVIEW

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund (the Fund) Global Equities Manager for the quarter ending 31 December 08.

This report also reviews the overall position of the fund in light of the market performance and the effects on the Fund. Members should bear in mind that the markets have seen unprecedented volatility and market falls since the latter half of 2007.

The Net return for the Fund's investments for the year to 30 September 2008 was **-19.2%**. This represents an under performance of **-8.2%** against the combined tactical benchmark and an underperformance of **-25.5%** against the annual strategic benchmark. (The December position is not yet available and will be provided at the meeting).

The net return for the **quarter** to 31 December 2008 for the Global Equities Manager (Alliance Bernstein) was **-9.5%**. This represents an under performance of **-6.0%** against the benchmark and an underperformance of **-6.6%** against the target.

RECOMMENDATION

That the Committee:

1. Considers the comparative performance of the Fund with other funds using data from the Funds performance measurers (WM) and considers any actions necessary given the current position.
2. Receives a presentation from the Funds advisor regarding Alliance Bernstein.

3. Receives presentations from the Funds Global Equities Manager (Alliance Bernstein).
4. Considers the Fund's position with regard to cash and alternatives investments and decides appropriate action.
5. Notes the other matters and considers any actions necessary (see paragraph 2.5).

REPORT DETAIL

1. Background

1.1 Following the Pensions Committee held on the 16 December 08 members requested a Special Pensions Committee in which to receive a presentation from the Funds Global Equities Manager (Alliance Bernstein) in light of their performance trends and to review the Funds overall position.

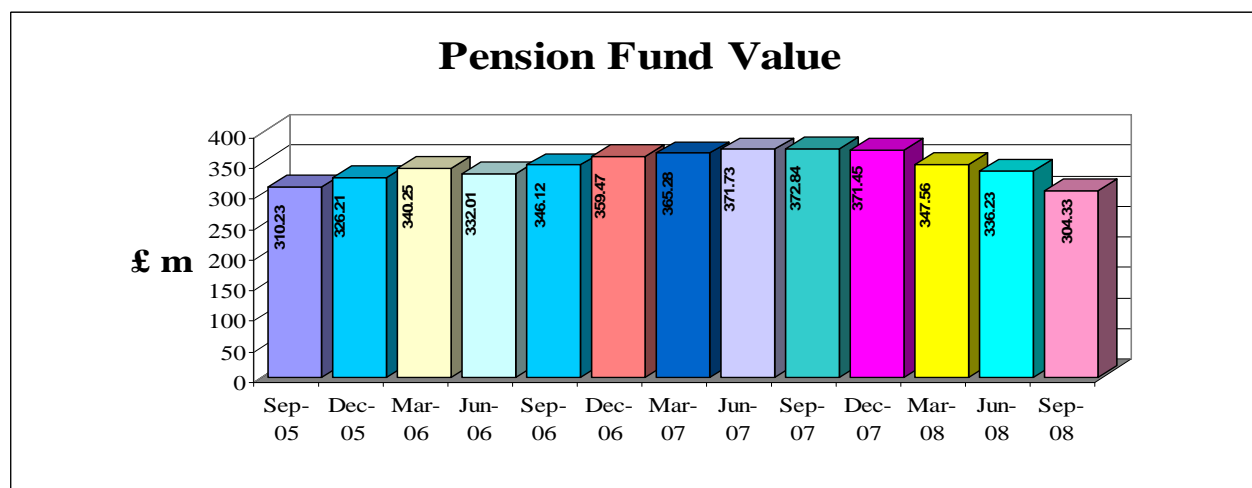
1.2 This report also provides subjects for consideration as part of a review of the Funds position in light of recent performance:

- a) Overall position of the Fund and comparative performance with other funds using WM data.
- b) Performance comparison of Alliance Bernstein with other Global Equity Managers (paper by Hymans). (See Appendix B)
- c) Alliance Bernstein presentation (See Appendix A)
- d) Review of cash balances of the Fund.

2. Overall Fund position

2.1 Fund Value

2.1.1 Based on information supplied by our performance measurers the total combined Fund value at the close of business on 30 September 2008 was **£304.27m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. (The December position is not yet available and will be provided at the meeting).



Source: WM Company (Performance Measurers)

2.1.2 The internal cash level as at 31 December totals **£7.3m**.

2.2 Comparative performance of Havering Pension fund with other Pension funds

2.2.1 Please refer to the following table which compares The Havering Pension Fund performance against other local authority funds within the WM universe. Data covers the period for quarter 3 (June to September 08). Please note that this analysis doesn't fully reflect the structure changes made to the Fund since August 08 and does not reflect the effects of the financial crisis after September.

2.2.2 There are **84** funds included in the WM universe:

- Havering's Fund return was **-9.3%** against WM weighted average of **-7.7**.
- **53** other funds were below the average return.
- Worst performance was **-10.9**.
- Only two funds had positive returns of **1.1** and **1.0**.
- Havering ranked as **83** percentile with **13** authorities ranked worse.

2.2.3

| | Weighted Average | Havering | Over/ (Under) | Percentile Ranking (based on returns) |
|-------------------------------|------------------|-------------|---------------|---------------------------------------|
| Returns and Rankings | | | | |
| Fund Return | -7.7 | -9.3 | (1.6) | 83 |
| UK Equities | -12.1 | -15.8 | (3.7) | 97 |
| Overseas equities:- | -9.9 | -12.7 | (2.8) | 87 |
| • N. America | -2.5 | -10.3 | (7.8) | 92 |
| • Europe (Ex UK) | -11.9 | -12.5 | (0.6) | 60 |
| • Japan | -9.2 | -18.3 | (9.1) | 98 |
| • Pacific | -15.6 | -16.3 | (0.7) | 57 |
| • Other Intl | -16.0 | -18.6 | (2.6) | 52 |
| Global inc UK Equity | -9.6 | - | - | - |
| UK Bonds | 0.9 | -2.5 | (3.4) | 87 |
| Index- Linked bonds | -0.3 | -1.2 | (0.9) | 78 |
| Alternatives - Private Equity | 2.9 | - | - | - |
| Alternatives – Hedge Funds | -6.7 | - | - | - |
| Other | -11.9 | - | - | - |
| Cash | 1.0 | 0.8 | (.2) | 73 |
| Property | -5.4 | -7.2 | (1.8) | 83 |

Source: WM Company (Performance Measurers)

| 2.2.4 | Weighted Average | Hovering | Over/ (Under) |
|-------------------------------|------------------|------------|---------------|
| Asset Distribution | | | |
| UK Equities | 30.2 | 31.6 | 1.4 |
| Overseas equities:- | 30.5:- | 23.1:- | (7.4) |
| • N. America | 9.8 | 13.2 | 3.4 |
| • Europe (Ex UK) | 9.3 | 5.2 | (4.1) |
| • Japan | 3.8 | 1.6 | (2.2) |
| • Pacific | 3.0 | 0.7 | (2.3) |
| • Other | 4.7 | 2.3 | (2.4) |
| Global inc UK Equity | 1.6 | 0 | (1.6) |
| UK Bonds | 14.0 | 23.0 | 9 |
| Index- Linked bonds | 5.6 | 7.5 | 1.9 |
| Alternatives - Private Equity | 3.0 | - | (3.0) |
| Alternatives – Hedge Funds | 1.7 | - | (1.7) |
| Other | 1.2 | - | (1.2) |
| Cash | 4.7 | 6.9 | 2.2 |
| Property | 7.5 | 7.9 | .4 |
| Total | 100 | 100 | |

Source: WM Company (Performance Measurers)

2.3 Alliance Bernstein Performance (Net of Fees)

2.3.1 As well as addressing members concerns regarding performance trends Alliance Bernstein will also be providing their scheduled quarterly report as at 31 December 08. They have been requested to concentrate on their performance, focus on actions being taken to improve performance and reviews of strategy. Table of their performance follows:

| | Q408 (Oct- Dec) | Q308 (Jul- Sep) | Q208 (Apr- Jun) | Q108 (Jan- Mar) | One Year | Three Year | Since Inception |
|---|-----------------------|-----------------------|-----------------------|-----------------------|--------------|---------------|--------------------|
| Return (performance) | -9.5 | -14.2 | -2.2 | -11.7 | -33.0 | -8.6 | -0.7 |
| Benchmark | -3.8 | -6.9 | -1.7 | -9.1 | -20.0 | -2.3 | 3.18 |
| **Over/(Under) Performance vs. Benchmark | -6.0 | -7.8 | -0.5 | -2.6 | -16.3 | -6.4 | -3.7 |
| TARGET | -3.1 | -6.3 | -1.1 | -8.5 | -17.5 | 0.2 | 5.7 |
| ** Over/(Under) Performance vs. Target | -6.6 | -8.5 | -1.3 | -3.5 | -18.8 | -8.7 | -6.0 |

Source, Fund Manager

* Performance is gross to reflect the benchmark and target.

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

2.3.2 The bond mandate with Western Assets was terminated on the 1st August 08 and cash was transferred in stages to Alliance Bernstein to reduce an underweight position in Overseas Equities. Two instalments have already been paid to Alliance Bernstein totalling £20.2m. **The balance of £7.5m is yet to be allocated and currently on cash deposit. This is due to be repaid to the Pension Fund on the 18 March 09.**

2.4 Cash position

2.4.1 Assets held by State Street on our behalf are held separately from State Street assets as ownership remains with the Havering Pension Fund. However, cash deposits held with State Street are subject to a level of risk associated with their credit rating just like other banks. Credit Ratings are opinions of credit risk with an AAA rating being the highest and C being the lowest.

2.4.2 Given the present level of volatility in the financial markets State Street's credit rating has been closely monitored. In January 09 Fitch Ratings downgraded State Street's long term and individual ratings by one notch to A+ (from AA-) and to B/C (from B) respectively.

2.4.3 Cash deposits held by State Street as at 31 December was **£7.2m** of which **£3.8m** was available for withdrawal (the balance being working balances used by our fund managers). In light of the recent downgrading of State Street's credit rating this cash has been withdrawn and placed with the Debt Management Board (a Government agency where deposits are 100% guaranteed).

2.4.4 Total usable cash position as at 31 December is **£18.6m**:

- £7.3m Pension fund cash balance
- £3.8m Cash deposits held by the Debt Management Board.
- £7.5m Currently on deposit and available for reinvestment from 18 Mar 09. The next Pensions Committee meeting is the 17 Mar 09 at which members will need to consider the way forward with this cash.

2.4.5 Members will need to consider the cash position having regard to the current Investment Strategy where there is no explicit reference to hold cash.

2.5 Other matters to note

2.5.1 The current allocation of the Funds assets to Royal London of 30% will remain the same until a decision has been made with regard to investing in an alternative asset class. The allocation will then be reduced to 25% to fund the investment in alternatives.

2.5.2 Hymans have explored the proposal put forward from the funds property manager (UBS) with regard to investing in their listed shares fund and have submitted a paper to this committee for consideration (See Appendix C).

- 2.5.3 The Chair has agreed to Royal London's proposal to amend the Fund's mandate in order that they can hold bonds downgraded from the permissible limit of BBB-. As part of this mandate change Royal London have agreed to keep Officers/Committee fully updated of the bonds that fall in this category. This is currently being progressed by Officers with Royal London.
- 2.5.4 To allow for more focussed questions at meetings Fund Managers have/ will be requested to simplify the technical terminology contained within their presentations and concentrate more on their own performance and actions.

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

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CHERYL COPPELL
Chief Executive

Background Papers List

Alliance Bernstein Quarterly report to 31st December 2008
The WM Company Local Authority League Tables for the quarter June to September 08.