



Havering

LONDON BOROUGH

PENSIONS COMMITTEE

AGENDA

7.30pm

**Tuesday,
14 December 2010**

**Havering Town Hall,
Main Road, Romford.**

Members 7: Quorum 3

COUNCILLORS:

| | | | |
|--------------------------|----------------------|-------------------|----------------------------------|
| Conservatives (4) | Residents (1) | Labour (1) | Independent Residents (1) |
| Eric Munday (C) | Ron Ower | Denis Breading | Jeffrey Tucker |
| Damian White (VC) | | | |
| Roger Ramsey | | | |
| Melvin Wallace | | | |

Trade Union Observers

(No Voting Rights) (2)

John Giles (Unison)
TBC

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

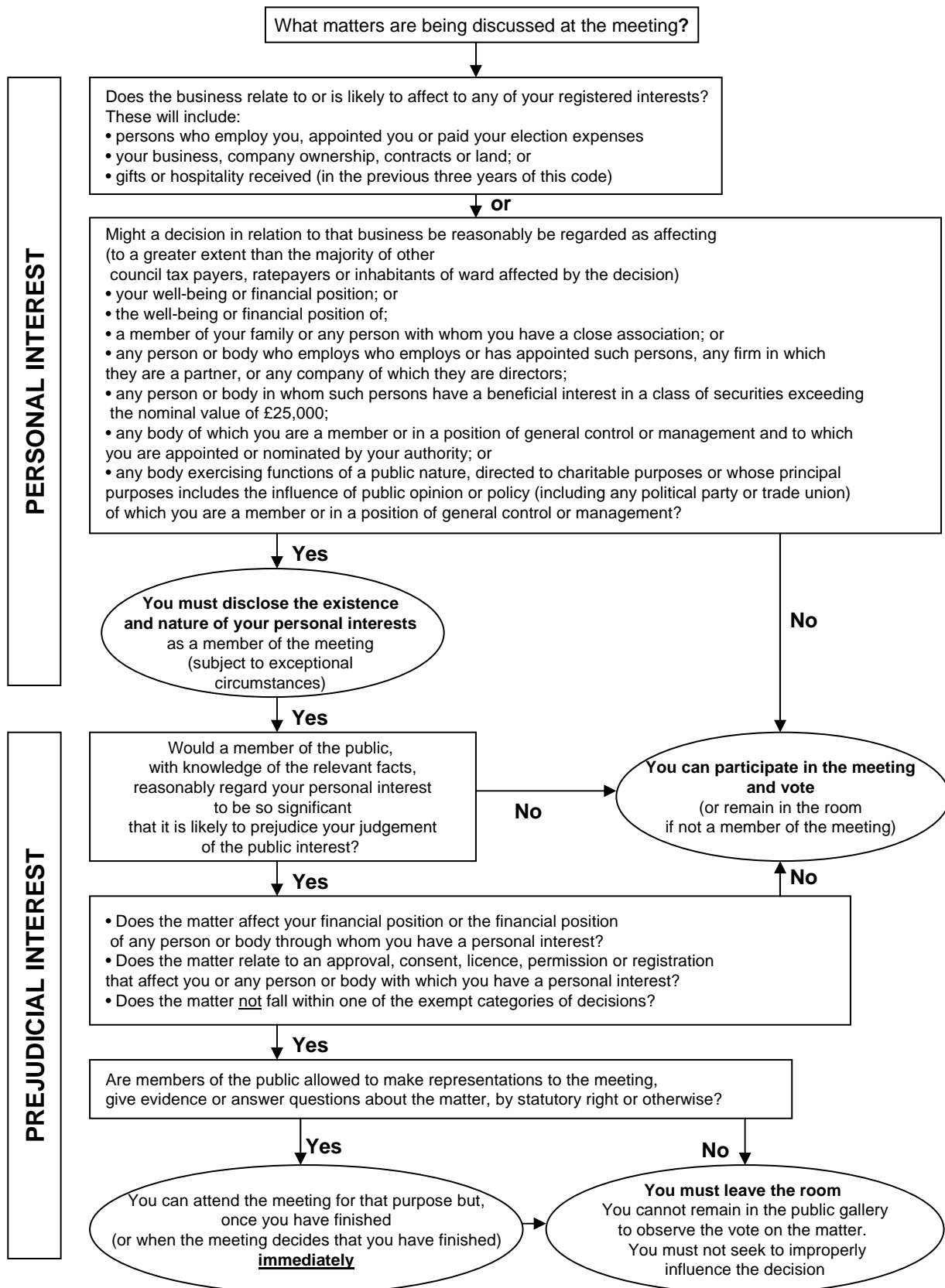
David Holmes

For information about the meeting please contact:

James Goodwin (01708) 432432

E-mail: james.goodwin@havering.gov.uk

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



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 any item at any time prior to the consideration of the matter.

4. MINUTES OF THE MEETING

To approve as correct the minutes of the meeting held on 23 November 2010 and authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2010 – report attached.

6. URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

Philip Heady
Democratic Services Manager

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**MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford
23 November 2010 (7.30pm – 8.05pm)**

Present:

COUNCILLORS

Conservative Eric Munday (in the Chair), Roger Ramsey,
Melvin Wallace and Damian White

Labour Denis Breading

Trade Union Observers John Giles (Unison)

Apologies for absence were received from Councillors Ower and Tucker and from David Holmes (Admitted/Scheduled Bodies Representative).

All decisions were made with no member voting against.

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

10. MINUTES

The minutes of the meeting held on 21 September 2010 were agreed as a correct record and signed by the Chairman.

11. REVIEW OF COMMUNICATION STRATEGY & GOVERNANCE COMPLIANCE STATEMENT

The Committee were advised that as part of the annual review minor changes had been made to the Communication Strategy. Officers explained why certain paragraphs had been deleted.

The Committee **considered and agreed** the changes to the Communications Strategy.

Officers informed the Committee of changes to the Governance Compliance Statement and highlighted key issues which the Committee discussed. In accordance with Principle B of the government guidance all stakeholders should be afforded the opportunity to be represented by, where appropriate, appointing independent observers. The Committee **reaffirmed** its previous decision not to fulfil this principle on the basis that the current monitoring arrangements were sufficient for the size of the fund.

Under Principle D the governance policy needed to include a statement on the justification for not extending voting rights to each group or body represented on the

Pensions Committee 23 November 2010

Committee. After re-considered their earlier decision not to extend voting rights the Committee **reaffirmed** its decision not to do so as the new membership arrangements were still in their infancy and the representative of the scheduled and admitted bodies was finding it difficult to attend all meetings and gain the necessary experience.

In the light of the above decisions the Committee **agreed** the Governance Compliance Statement has amended to reflect the changes made to the membership of the committee.

In accordance with the Local Government Pension Scheme (Administration) Regulations 2008 the administering authority may prepare a written statement of the authority's policies in relation to a Pension Administration Strategy. The Committee **agreed** that as the Communication Strategy addresses some of the communication requirements not to prepare an Administration Strategy, but to keep the matter under review.

12. WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT

Officers informed the Committee that they had carried out the annual review of the Whistleblowing obligations. The Committee **noted** the report which advised that no breaches had been reported.

13. REVIEW OF THE PENSION FUND CUSTODIAN

The annual review of the performance of the Pension Fund Custodian, State Street, had been finalised. The Custodian operate a wide range of functions which fall within two categories:

- Safe Keeping and Custody,
- Investment Accounting and Reporting.

Officers had indicated that they were satisfied with the safe keeping and custody functions provided by State Street. Furthermore they had indicated that they were pleased with the improvements made to the investment accounting and reporting functions.

The Committee were informed that in 2009/10 the cost of Custodian services had been £131,944. The costs cover transaction charges, administration costs and custody fees based on a pre agreed unit price applied to the value of the individual fund's assets and each transaction. As the contract had been running since December 2004 officers indicated that they were looking to demonstrate that the fund was still getting value for money. Officers were in discussion with State Street over the level of fees and indicated they would report back when negotiations were concluded.

Have considered the matter carefully the Committee **agreed** to delegate authority to the Chairman in consultation with the Group Director, Finance and Commerce to

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approve a revised fee with State Street and **asked** officers to under research to benchmark the fees we are paying against fees paid by similar funds.

14. **EXTENSION OF THE CONTRACT FOR PENSION ADVISORY SERVICES**

The Committee were advised that Hymans Robertson had been awarded a three year contract to provide Pensions Advisory Services commencing 1 April 2007. The contract made provision for the contract to be extended for an additional two years. Last November the Committee agreed a one year extension until 31 March 2011.

Officers advised that they were satisfied with the service being provided by Hymans Robertson and detailed the benefits of taking up the option of extending the contract for a further year.

The Committee **agreed** to:

1. Approve a one year extension of the existing pensions advisory services contract with Hymans Robertson LLP, subject to the Assistant Chief Executive Legal and Democratic Services approving the terms and conditions of the extension: and
2. Approve the re-tendering of the Investment Advisor contract for a five year period commencing 1 April 2012, with an option to extend for up to two years.

15. **MEMBERSHIP STATUS OF NON TEACHING STAFF IN NON COMMUNITY SCHOOLS**

The Committee were advised that in accordance with Regulation 8 of the Local Government Pension Scheme (Administration) Regulations 2008 an employee of the governing body of:

- a voluntary school,
- a foundation school or foundation special school maintained by the local education authority,
- any technical institute or other similar institution which is for the time being assisted by the local education authority,
- a federated school

shall be eligible for membership of the Local Government Pension Scheme, provided the local education authority designate him, or a class of employees to which he belongs as being eligible for membership of the scheme. Schools transferring to Academy status do not fall under the remit of this Regulation.

Officers advised that for the purposes of the scheme all non-teaching staff of non community schools should be deemed to be in employment with the relevant local authority. As a result there was no requirement for an assessment on the level of liabilities for the purpose of obtaining bonds; as such establishments must be treated as if they were part of the Council for all aspects of the scheme (including the setting of employer contribution rates).

Having considered the report and the views of officers the Committee:

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1. **Resolved** to allow a designated class of employees employed in non community schools (at the point of transfer and new recruits), known as non-teaching staff, as being eligible for membership of the Local Government Pension Scheme, subject to the consent of the employer,
2. **Agreed** that the employer (Governing Body) should provide evidence of consent for its non teaching staff to become members of the Local Government Pension Scheme in future transfers from a community or voluntary controlled school.
3. **Agreed** that existing arrangements be formalised by allowing continuing membership for non teaching staff already transferred and/or employed by the non community schools.
4. **Authorised** the Group Director, Finance and Commerce to enter into agreements with relevant schools to implement the above decisions.

16. PENSION FUND ANNUAL REPORT – YEAR ENDED 31 MARCH 2010

In accordance with Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 an administering authority must, in relation to each year beginning on 1st April 2008, and each subsequent year prepare an Annual report. The must be published on or before 1 December following the year end. The Committee were advised that making the report available on the Council's website meets the requirement to publish.

Back in August 2008 the Department of Communities and Local Government issued draft guidance to assist administering authorities with the preparation and publication of the annual report. Although this guidance had yet to be formally adopted the annual report had been prepared in accordance with the guidance.

Having considered the report the Committee **agreed**:

1. the 2009/10 Pension Fund Annual Report, subject to the minor amendments indicated during the presentation of the report,
2. that the Pension Fund Annual Report be published electronically,
3. that the Chairman and Group Director, Finance and Commerce formally sign the Annual Report, and
4. to note the Letter of Representation and the external auditors' ISA 260 Report to the Pensions Committee.

PENSIONS COMMITTEE

14 December 2010

REPORT

| | |
|---|--|
| Subject Heading: | PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2010 |
| Report Author and contact details: | Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@haverling.gov.uk |
| Policy context: | Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met. |
| Financial summary: | This report comments upon the performance of the Fund for the period ended 30 September 2010. |

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

| | |
|--|-------------------------------------|
| Clean, safe and green borough | <input type="checkbox"/> |
| Excellence in education and learning | <input type="checkbox"/> |
| Opportunities for all through economic, social and cultural activity | <input type="checkbox"/> |
| Value and enhance the life of every individual | <input checked="" type="checkbox"/> |
| High customer satisfaction and a stable council tax | <input type="checkbox"/> |

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 September 2010. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 30 September 2010 was **9.1%**. This represents an out performance of **0.4%** against the

combined tactical benchmark and an out performance of **2.5%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 September 2010 was **8.2%**. This represents an underperformance of **-3.9%** against the annual tactical combined benchmark and an under performance of **-2.5%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007 and further market crisis in the financials sector led to more market falls during 2008. The middle part of 2009 saw markets continuing to rally on the back of an improvement in worldwide economic data, erasing some of the losses from the early part of the year. Both Equity and Bond markets performed well during the quarter. Evidence of continuing but fragile economic recovery provided the main support of financial markets. Equities gained extra support from merger and acquisition activity.

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.

RECOMMENDATIONS

That the Committee:

- 1) Considers Hymans performance monitoring report and presentation (Appendix A).
- 2) Receive presentations from the funds Global Equities Manager (Alliance Bernstein) and the Property Manager (UBS).
- 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, 2.3 and 2.4 refer).

| |
|----------------------|
| REPORT DETAIL |
|----------------------|

1. Background

- 1.1 A major restructure of the fund took place in the first quarter of 2005. A further restructure of the fund took place during the first half of 2008 and these changes were reflected in a revised Statement of Investment Principles (SIP) adopted by members in September 2008 and subsequently updated in June 2010.
- 1.2 As part of the SIP a strategic benchmark was adopted for the overall Fund of Gilts + 3.6% gross (3% net) per annum. In the revised SIP the strategic benchmark adopted for the overall Fund is Gilts plus 2.9% (net of fees) 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 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. No revisions were made to individual fund manager benchmarks as part of the investment strategy review. However the asset allocation has been revised and these are shown in the following table against the manager's benchmarks:

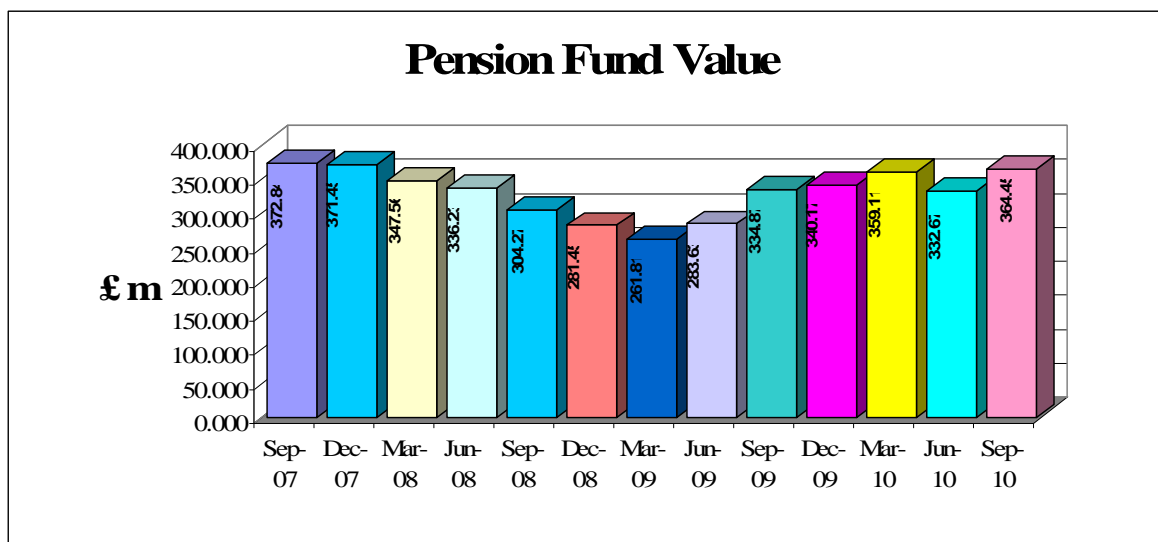
| Manager and % of total Fund awarded | Mandate | Tactical Benchmark | Out performance Target |
|--|------------------------------|---|-------------------------------|
| Standard Life 20% | UK Equities -Active | FTSE All Share Index | 2% |
| Alliance Bernstein 25% | Global Equities - Active | MSCI All World Index | 2.5% |
| State Street 15% | UK/Global Equities - Passive | UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index | To track the benchmark |
| Royal London Asset Management 25% | Investment Grade Bonds | <ul style="list-style-type: none"> • 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% |
| UBS 10% | Property | IPD (previously called HSBC/AREF) All Balanced Funds Median Index | To outperform the benchmark |
| Ruffer 5% | Multi Asset | Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%. | To outperform the benchmark |

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- 1.4 The Committee appointed a Multi-Asset Manager (Ruffer) and a Passive Equity Manager (State Street Global Advisors Limited)) in February 2010. Both Managers commenced trading from 8th September 2010.
- 1.5 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.
- 1.6 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).
- 1.7 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 is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. However due to members concerns over UBS performance, from September 09 UBS monitoring arrangements were brought in line with the other fund managers.
- 1.8 Each of the new managers (Ruffer and Statestreet) will attend two meetings per year, one with officers and one with the Pensions Committee. If there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.
- 1.9 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 September 2010 was **£364.45m**. 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 £332.67m at the 30 June 2010; an increase of **£31.78m**. The movement in the fund value is attributable to an increase in fund performance of £31.23m and an increase in cash of £.55m. The internally managed cash level totals **£7.9m**, of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£7.9m** follows:

| CASH ANALYSIS | 2008/09 | 2009/10 | 2010/11 |
|---------------------------------|----------------|----------------|----------------|
| | £000's | £000's | £000's |
| Balance B/F | -6673 | -7999 | -4763 |
| Benefits Paid | 23878 | 26926 | 12,723 |
| Management costs | 1742 | 1939 | 907 |
| Net Transfer Values | 156 | 2639 | -2099 |
| Employee/Employer Contributions | -26546 | -28251 | -14866 |
| Cash from/to Managers | -315 | 0 | 181 |
| Internal Interest | -241 | -17 | -18 |
| Movement in Year | -1326 | 3236 | -3172 |
| Balance C/F | -7999 | -4763 | -7935 |

2.3 The £6.3m that was previously placed on deposit with Lloyds Bank was transferred to the fund's new Multi-Asset Manager (Ruffer) on the 8th September.

2.4 Internally managed cash had been decreasing during 2009/10; the significant factor being the reduction in net transfer values (more members transferring out than in). A clarification in the regulations was required before a number of 'Transfers In' could be processed. This has since been received and the numbers of 'Transfers In' processed had increased, hence why the cash levels have risen.

3. Performance Figures against Benchmarks

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

| | Quarter to 30.09.10 | 12 Months to 30.09.10 | 3 Years to 30.09.10 | 5 years to 30.09.10 |
|-----------------------|----------------------------|------------------------------|----------------------------|----------------------------|
| Fund | 9.1% | 8.2% | -1.5% | 2.6% |
| Benchmark return | 8.6% | 12.6% | 2.3% | 4.6% |
| *Difference in return | 0.4% | -3.9% | -3.7% | -2.0% |

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 and then revised to 2.9%) is shown below:

| | Quarter to 30.09.10 | 12 Months to 30.09.10 | 3 Years to 30.09.10 | 5 years to 30.09.10 |
|-----------------------|----------------------------|------------------------------|----------------------------|----------------------------|
| Fund | 9.1% | 8.2% | -1.5% | 2.6% |
| Benchmark return | 6.4% | 11.0% | 11.8% | 8.6% |
| *Difference in return | 2.5% | -2.5% | -11.9% | -5.5% |

Source: WM Company

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

The Fund's revised strategy adopted in September 2008 has not been fully implemented and historical performance greater than three years is no reflection of the revised 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 30 SEPT 2010)

| | Standard Life | Alliance Bernstein | Royal London | UBS |
|--|----------------------|---------------------------|---------------------|------------|
| Return (performance) | 16.9 | 9.0 | 6.1 | 2.2 |
| Benchmark | 13.6 | 8.6 | 5.6 | 1.9 |
| *Over/(Under) Performance vs. Benchmark | 2.9 | 0.3 | 0.4 | 0.3 |
| TARGET | 14.1 | 9.2 | 5.7 | n/a |
| * Over/(Under) Performance vs. Target | 2.5 | (0.2) | 0.3 | n/a |

Source: WM Company, Fund Managers and Hymans

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

Trading for the new managers was for a part period only so no performance data is available from our WM Performance Managers.

ANNUAL PERFORMANCE (LAST 12 MONTHS)

| ANNUAL | Standard Life | Alliance Bernstein | Royal London | UBS |
|--|----------------------|---------------------------|---------------------|-------------|
| Return (performance) | 7.2 | 6.2 | 13.6 | 11.5 |
| Benchmark | 12.5 | 10.0 | 11.2 | 18.4 |
| *Over/(Under) Performance vs. Benchmark | (4.7) | (3.5) | 2.2 | -6.9 |
| TARGET | 14.5 | 12.5 | 11.9 | n/a |
| * Over/(Under) Performance vs. Target | (6.3) | (5.6) | 1.5 | n/a |

Source: WM Company, Fund Managers and Hymans

• 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 17 November 2010 at which a review of the quarter 3 performance was discussed.
- b) Assets to the value of £33,582,890 were transferred out of the fund during September and transferred to the passive equity manager SSGA, therefore reducing the value of assets held by Standard Life.
- c) Standard Life outperformed the benchmark in the quarter by 2.9% and outperformed the target in the quarter by 2.5%. Since inception they are below benchmark by (.5%) and (2.5%) against the target. As at the date of the meeting performance was flat against the benchmark.
- d) Standard Life reported that in the UK equities regained losses suffered during the previous quarter. The quarter started strongly but weak economic data from the US dragged the market lower in August. Equities recovered strongly towards the end of the quarter as investors became slightly more optimistic on the prospects for economic recovery.
- e) At the request of officers Standard Life have now included in their presentation the stock and sector attributions as a total. Over the quarter both stock and sector selection contributed to outperformance. Standard Life does not have a target for this split as the sector allocations are the

offshoot of stock selection. As Standard Life adopt a bottom up approach stock selection was the primary driver of returns as would be expected.

- f) There have not been many changes to the portfolio positioning since the start of the year and the top sector positions for the year to September were almost the same as the quarter positioning.
- g) The fund's outperformance over the quarter was helped by overweight holdings in mining.
- h) Industrials, Mining, Banks, Oil and Gas sectors contributed to the positive outperformance. Negative contributors came from Real Estate, Nonlife Insurance and Personal Goods.
- i) Top stock contributors were GKN (autoparts) and Cookson (steel) both reported stronger than expected results as end market demand continued to beat expectations. Rio Tinto and Xstrata were strong on increased confidence in the global growth outlook and the subsequent demand for commodities. Lloyds Banking Group shares rallied on stronger than expected results. BP shares recovered some of their losses from the previous quarter, following the successful closing off of the leaking Mocando oil well.
- j) Negative attribution in stock selection came from Yell as uncertainty over the timing of management change and limited revenue guidance hit the shares. Xchanging (outsourcing) had a disappointing trading update and was hit on accounting concerns. Vedanta, the market didn't like its unexpected bid for Cairn India oil assets and the loss of mining permits due to environmental reasons impacted the shares.
- k) At the mention of environmental issues Standard Life were questioned about their Social Responsible duties and whether they were secure with their decision to invest in Vedanta. Standard Life stated that they still engage with Vedanta over environmental and social issues in particular over improved communications.
- l) The portfolio activity during Quarter 1 were as follows :
 - Purchased Vedanta Resources -shares looked oversold on concerns over the Cairn India deal, believe the deal will enhance earnings but this is not reflected in the current share price.
 - Purchased Essar Energy – Indian power company with strong production growth and set to benefit from increases in power consumption in India.
 - Purchased Stagecoach – concerns over changes to government subsidies looked overdone. Both bus and rail businesses growing strongly.
 - Sold stocks in Aquarius Platinum and Kazakhmys (taking profits after good performance).
 - Sold stocks in Home Retail – trading trends were poor versus the industry suggesting that they are losing market share and being impacted by competitive pressures.
 - Took profits in Vodafone, BT, Compass and Melrose.

m) No governance or whistle blowing issues were reported.

4.2. Global Equities (Alliance Bernstein)

- a) Representatives from Alliance Bernstein are to make a presentation at this committee, therefore a brief overview of Quarter 3 performance follows:
- b) Assets to the value of £17,499,738 were transferred out of the fund during September and transferred to the passive equity manager SSGA, therefore reducing the value of assets held by Alliance Bernstein.
- c) During the quarter Alliance Bernstein outperformed the benchmark by 0.3% and underperformed the target by (0.2%) (Net of fees). Since inception they are below benchmark by (3.0%) and below the target by (5.2%) (Net of fees).
- d) Global equity markets rallied in the third quarter despite a steep drop in August. As fears about China's economic outlook abated, their holdings in materials outperformed. Stock selection contributed to performance, with the growth sleeve doing better than the value sleeve. Currency exposures from stock positions detracted from performance.

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

- a) In accordance with agreed procedures officers met with representatives from Royal London on the 17 November 2010 at which a review of the quarter 3 performance was discussed
- b) There was a transfer out of the fund to the value of £11m during September which was transferred to the Funds Absolute Return Manager Ruffer LLP.
- c) Royal London outperformed the benchmark for the quarter by 0.4% and 0.3% against the target. Since inception they outperformed benchmark by 0.3%.
- d) Asset allocation of the fund during the quarter was 53.9% Sterling Credit Bonds, 25.3% Index Linked, 19.1% Fixed Interest Government Bonds, 1.2% Overseas Fixed Interest Government Bonds and .4% cash.
- e) Royal London's tactical overweight position to corporate bonds continued to contribute to performance. Their underweight position in UK index linked bonds against benchmark led to strong relative returns, however their position in 10 and 40 year index linked bonds was overweight relative to benchmark, which proved a slight detractor to performance. Good stock selection within corporate bonds added value; overweight positions in financial sector debt and Asset Backed Securities were major drivers.

- f) In respect of asset allocation Royal London's activity during the quarter was as follows:
- Maintained an overweight position in corporate bonds – this was a positive contributor
 - Held an overweight position in 10 and 40 year index linked bonds – small detractor from performance
 - Tactical off-benchmark positions in overseas index linked bonds - holdings of overseas bonds added value over the quarter.
- g) In respect of stock selection the activity during the quarter was as follows:
- Held no supranational bonds over the quarter – this was a positive factor for performance
 - Ran an overweight position in financial bonds; particularly tier 1- this was beneficial.
 - New issuance activity picked up and the portfolio did participate in several attractively priced new issues – the fund gained from its participation in several attractively priced new issues.
 - Underweight positions were held in auction stocks – positive effect on portfolio performance.
- h) Activity in the credit segment of the fund was dominated by the sale of bonds to provide liquidity for the cash withdrawal in September. Sold a broad range of credit bonds and maintained the overall structure of the portfolio.
- i) The duration position (the sensitivity of a bond's price to shifts in interest rates) of the fund did not significantly differ from benchmark and duration positions were a small negative factor.
- j) Members have agreed a change to our portfolio that allows bonds to be held if they are downgraded after purchase to below investment grade BBB- . This means that Royal London would avoid having to be forced to sell those downgraded bonds. Royal London has been granted some flexibility over the disposal of these bonds during a period where it is expected a higher than usual numbers of bonds are being downgraded. It will not be permitted to allow purchase of bonds below BBB- only to have some flexibility when to sell if downgraded.
- k) Royal London explained that for those assets that were downgraded earlier in the year and were not forced to sell benefited the portfolio.
- l) Royal London were asked to explain why they think credit spreads (difference in return on a corporate bond over the return of a similar government bond) remain attractive over the medium term and they explained that they believe that there will not be a double dip in recession, inflation will not go higher than 3.6% and GDP will rise.
- m) A discussion took place over the impact of CPI on the bonds market. Royal London did mention that there was some confusion over whether CPI Bonds

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will be issued. They were of the view that pension funds would continue to buy RPI Bonds and there would be no impact on investments.

n) No governance or whistle blowing issues were reported.

4.4. Property (UBS)

- a) Representatives from UBS are to make a presentation at this committee, therefore a brief overview of Quarter 3 performance follows.
- b) The value of the fund has increased by 1.74% since the last quarter.
- c) UBS outperformed the benchmark in the quarter by 0.3% and underperformed the benchmark in the year by (6.9%).
- d) UBS Triton's performance has continued its positive absolute trend since its property portfolio was repositioned in December 09 and January 10. For the second consecutive quarter, UBS Triton has outperformed. The letting of the Rex Building in Central London to Gartmore has had a positive impact on performance during the quarter.
- e) In quarter 3 the fund's void level fell by 2.6% to 7.6%. This represents a below benchmark void position and is the culmination of significant effort in the past 15 months to address this.

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 UBS

- 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 and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 30 Sept 2010
Alliance Bernstein Quarterly report to 30 Sept 2010
Royal London Quarterly report to 30 Sept 2010
UBS Quarterly report to 30 Sept 2010
The WM Company Performance Review Report to 30 Sept 2010
Hyman's Monitoring Report to 30 Sept 2010