



Haverling

LONDON BOROUGH

PENSIONS COMMITTEE

AGENDA

7.30pm

Tuesday,
15 December 2009

Haverling Town Hall,
Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group

(4)

Robby Misir (Chairman)

Eric Munday (Vice Chairman)

Robert Benham

Melvin Wallace

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

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 MEETING

To approve as a correct record the minutes of the meeting held on 3 November 2009 and authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2009- report attached

6. REVIEW OF THE PENSION FUND CUSTODIAN – report attached

7. 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.

Cheryl Coppel
Chief Executive

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

3 November (7.30pm – 8.05pm)

Present:

COUNCILLORS

Conservative Group Eric Munday (in the Chair), Robert Benham,
*Lynden Thorpe and #Frederick Thompson

Residents' Group Clarence Barrett and Linda Van den Hende

John Giles was also in attendance

Apologies for absence were received from Councillors Robby Misir (substitute *Councillor Thorpe) and Melvin Wallace (substitute #Councillor Frederick Thompson)

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

Councillors Clarence Barrett, Frederick Thompson and Linda Van den Hende declared a personal interest, which was not prejudicial, as all are members of the Local Government Pension Scheme, although not of the Havering Pension Fund.

12. MINUTES

The minutes of the Committee joint meeting held on 15 September 2009 and of the meeting held on 30 September 2009 were agreed as a correct record, and signed by the Chairman.

13. PENSION FUND ANNUAL REPORT – YEAR ENDED 31 MARCH 2009

Officers advised the Committee that the authority's external auditors, PricewaterhouseCoopers (PWC) had made some minor recommendations for amendments to the Annual report. These would be taken on board and the Annual report republished including the auditors opinion. PWC had indicated that there were no significant amendments to the Pension Fund accounts and therefore they had decided not to attend the meeting.

Officers mentioned that PWC had indicated that the Annual report would need to be signed by Councillor Misir, not Councillor Wallace.

The Committee **agreed** :

1. The 2008/9 Pension Fund Annual report;
2. That the Pension Fund Annual Report be published electronically: and
3. That Councillor Misir (Chairman) and Andrew Blake-Herbert Group Director, Finance and Commerce will formally sign off the Annual report once changes have been agreed by PWC.

14. REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT

In line with the Local Government Pensions Scheme Regulations and good practice the London Borough of Havering as an administrating authority undertakes a regular review of the Funding Strategy Statement (FSS) and the Statement of Investment Principles (SIP). The report sets out how the review was undertaken and highlighted where or if changes were necessary.

Officers had met the Fund's Actuaries in October and they had not suggested any changes to the Funding Strategy Statement at this time. One minor change was required to the Statement of Investment Principles, this was to show PricewaterhouseCoopers as the Fund's auditors.

Officers advised the Committee that the Department of Communities and Local Government was shortly to issue guidance reducing the Myners Principles of Compliance from 10 to 6. In the light of this imminent change it was agreed to defer reviewing the principles until the new guidance was issued.

The Committee **noted** that the Fund was majority compliant anyway.

With regard to the regular reporting requirement it was mentioned that Havering has also undertaken partnership working with the London Pension Fund Authority who are in the process of developing a joint web site with the London Borough of Redbridge which should improve the funds position with regard to compliance with the need to have a dedicated web site for the Pension Fund.

The Committee **agreed** to:

1. The Funding Strategy Statement without amendment;
2. The Statement of Investment Principles subject to the minor amendment regarding appointed auditors: and
3. The administrative authority's position in respect of reporting compliance against the Myner's investment principles which is to be deferred until issuance of the guidance on the reduced 6 principles.

15. PENSIONS ADMINISTRATION SERVICE

The Committee received a report detailing the work and performance of the Pensions Administration Service in 2008/9. As at the start of 2008/9 there were 14,118 members of Havering's Pension Fund. The Pensions Administration Service consists of approximately 7.8 full-time equivalent posts (10 staff) including a part time temporary member of staff.

In addition to the on-going work of the section there were some key projects that were identified as part of the unit's work programme for 2008/2009;

- ❖ Continuation of the Pension Partnership with Redbridge including a communication project to produce a joint scheme booklet to reflect the new Pension Regulations;
- ❖ Implementation of the new pension regulations which came into effect on the 1st April 2008;
- ❖ Improving the efficiency of service processes by the use of 'Word' integration;
- ❖ Staff training and development on new legislation and subsequent system updates; and
- ❖ Work to integrate payroll data to the pension system via an electronic interface.

There were also a number of unplanned pieces of work one of which was the preparation for the relocation of the Pensions Service including work on a document management solution for the unit prior to the move. Additionally, and as usual, there was also a number of unplanned reorganisations entailing retirement \ redundancy estimates.

The joint scheme booklet had been recognised as good practice London wide and is was possible it would also be recognised nationwide. The work to integrate the payroll data to the pension scheme was still on-going.

The local performance indicators showed the huge impact of the new regulations which had necessitated delays in some of the less urgent day to day functions. None of these delays were critical.

The committee **noted** the report.

16. REVIEW OF COMMUNICATION STRATEGY & GOVERNANCE COMPLIANCE STATEMENT

In line with the Local Government Pensions Scheme Regulations and good practice the London Borough of Havering as an administrating authority has a duty to undertake a review the Pension Fund's Communication Strategy and Governance Compliance Statement.

Officers advised that the current Communications Strategy had been reviewed in consultation with the Head of Exchequer Services and no changes were necessary

at this stage.

The Governance Compliance Statement sets out the administrative authorities approach towards governance of the pension fund and includes a compliance table which shows how the Pension fund is compliant against best practice standards and if it does not, states the reasons for not complying. Guidance was issued by the Department of Communities and Local Government (CLG) in June 2008 and the Havering compliance statement based on these guidelines, was submitted to the CLG in July 08. The CLG confirmed that the authority had fulfilled its obligation in submitting its first governance compliance statement.

The next steps for the CLG were to analysis all the statements and make an assessment of compliance against the best practices they laid out. They have yet to complete all their assessments but in May 2009 the CLG issued the initial results. In overall terms compliance against the principles was significantly high with many boroughs scoring 80% or higher (Individual authority results have not been published). Although the initial review highlighted substantive progress it also identified a small number of boroughs who had areas of weakness in the following principles:

- a) Training, Facility Time and expenses (Principle E of the compliance statement refers).
- b) Communication and representation in instances where scheme members were not represented on the committee (Principle F, part c of the compliance statement refers).

Having considered the report and discussed in detail the key points raised the Committee:

1. **Agreed** that no changes are required to the Communications Strategy;
2. **Agreed** that the current position of not employing the services of an independent professional observer to participate in the governance arrangements, on the basis that the current monitoring arrangements are sufficient for the size of the fund;
3. **Agreed** to review the voting arrangements when the new membership arrangements have developed.;
4. **Agreed** in the light of the decisions taken above to adopt the Governance Compliance Statement without change; and
5. **Agreed** not to prepare an administration strategy at this time, but to keep the matter under review.

17. EXTENSION OF CONTRACT FOR PENSIONS ADVISORY SERVICES

The existing contract was awarded to Hymans Robertson LLP in 2007 for a three year period commencing 1 April 2007 with an option to extend for an additional two years (i.e. until 31 March 2012).

The existing three year contract with Hymans Robertson ends on 31 March 2010. If the contract is not extended it will be necessary to arrange a re-tendering exercise to appoint an alternative provider. Officers believe that there are significant advantages to extending the contract.

The Benefits of Contract Extension are as follows:

1. Pricing

The contract with Hymans Robertson was the least cost option when last tendered in 2007. If the contract was extended for a further year Hymans Robertson have confirmed that the contract price for the core service would be frozen for that period. The core services were:

- Trustee Training.
- Preparation of Quarterly Manager monitoring reports.
- Attendance at Pension Committee Meetings.
- Preparation of material for officer/manager meetings.
- Miscellaneous queries.

2. Service continuity and risk management

Hymans Robertson are currently managing the tendering process for the appointment of two new fund managers. Officers believed it would be impractical to change the pensions advisor during the course of this exercise and that it was essential to maintain service continuity throughout the selection process. Switching advisors was also likely to give rise to a duplication of costs. For these reasons officers recommended that the contract was extended for a period of one year pending the outcome of the fund manager selection process.

Service continuity and performance would continue to be maintained by the retention of the client team at Hymans Robertson which had developed a strong relationship with the Committee. Some changes were proposed to the client team which were supported by officers.

3. Cashable savings arising from the avoidance of re-tendering.

The direct costs associated with re-tendering would be avoided until the end of the contract. This could be significant for major contracts which were subject to the Procurement Directive 2004/18/EC for Public Contracts.

4. Non-cashable savings in officer time on re-tendering, project management and transition

The re-tendering process was in itself a time consuming process. Contract extension prevents officer time being diverted from other key activities. To carry out this activity over a four or five year cycle rather than three represents a more efficient use of resources.

The following changes to Hymans Robertson's client team had been notified to officers:

1. Alistair McKissack would return to his role as lead consultant for Havering;
2. David Boyd (our current lead consultant) would take the role of Client Director. He would also be available for Alistair to call upon when his actuarial expertise was required; and
3. James Sheehan remained in his role of support analyst.

The client team are well known to members and officers and the proposed changes should ensure that service continuity and performance are maintained.

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.
2. Note the changes to the client team proposed by Hymans Robertson.

18. **REPORT TO PENSIONERS AND CONTRIBUTORS OF THE PENSION FUND 2008/9.**

Officers advised that in accordance with Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008 administrative authorities were required to prepare and publish a policy statement concerning communications with members and employers. This must include how information and publicity was distributed about the pension fund to members. The production of this booklet complied with the administrative authority's communication statement.

Production of the booklet also complied with 'The Myner's Report', recommended principle of best practice (on regular reporting) in managing Pension Fund investments.

Having considered the report and requested a minor amendment to the leaflet the Committee:

1. **Approved** the 2008/9 report to Pensioners, Deferred Pensioners and Contributors; and
2. **Agreed** that the 2008/9 report to Pensioners, Deferred Pensioners and Contributors be sent to scheme members with the Annual Benefit Statements.

19. WHISTLE BLOWING REQUIREMENTS OF THE PENSIONS ACT.

The Committee noted that on 6 April 2005 the new whistle blowing requirements of the Pensions Act 2004 came into force. This extended whistle blowing obligations to nearly everyone connected with running a pension scheme, in particular administering authorities and employers. The Pensions Regulator issued a Code of Practice that set out guidance on how to comply.

The basic requirement of the new law was that all persons who are involved with a pension scheme have a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable cause to believe' that there had been a breach of law 'relevant to the administration of the scheme' which was 'likely to be of material significance to the Regulator'. The Code discussed each of these issues, in particular what the Regulator sees as materially significant.

Having considered the report the Committee **noted** the result of the annual review and that no breaches had been reported.

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PENSIONS COMMITTEE

15 December 2009

REPORT

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED 30 SEPTEMBER 2009**

Report Author and contact details:

Contact: Debbie Ford
Designation: Pension Fund Accountant
Telephone: (01708) 432569
E-mail address:

Policy context:

debbie.ford@havering.gov.uk
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 improved performance of the Fund for the period ended 30 September 2009.

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 2009. 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 2009 was **18.3%**. This represents an outperformance of **2.2%** against the combined tactical benchmark and an outperformance of **11.0%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 September 2009 was **9.2%**. This represents an out performance of **1.2%** against the annual tactical combined benchmark and an underperformance of **-6.1%** 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. This latest quarter 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. Interest rates remain at 0.5%.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark as they became active on the 14 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) Receives 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).
- 8) Considers any necessary action with regard to the funds cash position (paragraph 2.3 refers).

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.

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.**

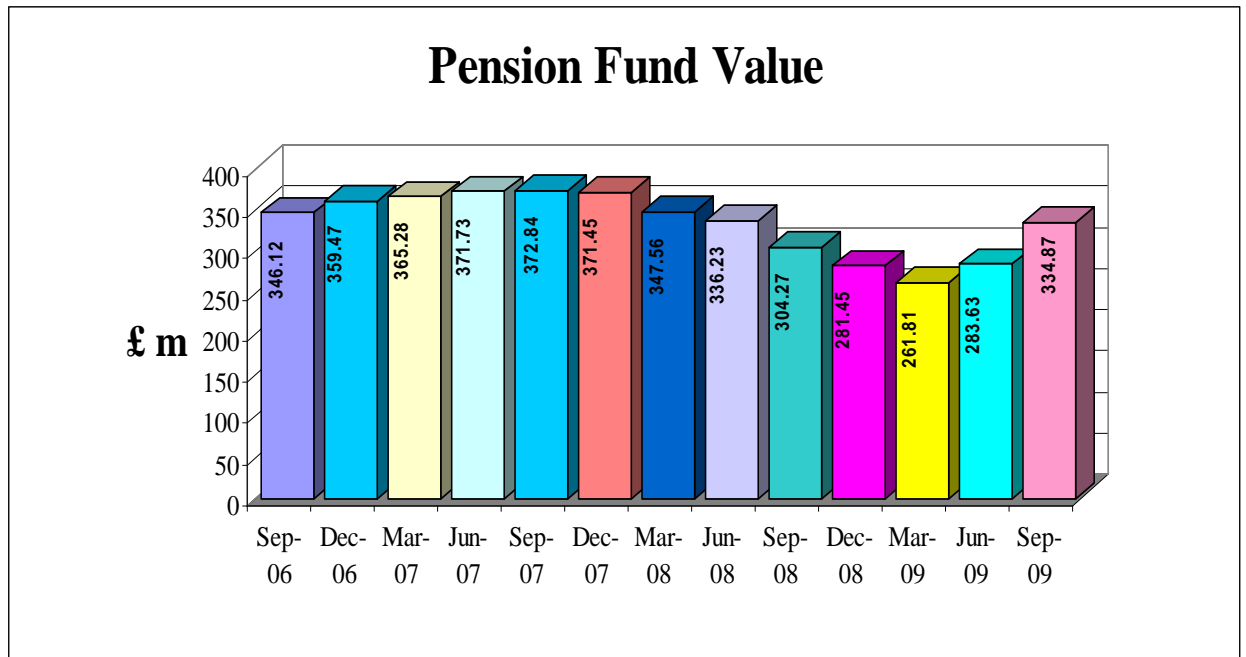
1.3 Individual manager performance and asset allocation will determine the outperformance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according 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. 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 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 30%	Global Equities	MSCI All World Index	2.5%
Royal London Asset Management (RLAM) 30%	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
Alternatives (possibly 5%)	Alternatives	Not yet appointed and kept under review until the market settles	

- 1.4 The bond mandate with Western Asset was terminated on 1 August 2008 and cash was transferred in stages to Alliance Bernstein. The allocation to Royal London will remain at 30% until a decision has been made with regard to investing in an alternative asset class in which it will then be reduced to 25% to fund an investment in alternatives.
- 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 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).
- 1.7 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)
 - Property Manager (UBS)
- 1.8 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 2009 was **£334.87m**. 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 £283.62m at the 30 June 2009; an increase of **£51.25m**. The increase in the fund value is attributable to fund performance, resulting in an increase of £52.43m and a decrease in internal cash of £1.18m. The internally managed cash level totals **£6.9m**, of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£6.9m** follows:

CASH ANALYSIS	2007/08	2008/09 (Revised)	2009/10
	£000's	£000's	£000's
Balance B/F	-3706	-6673	-7999
Benefits Paid	22852	23878	13566
Management costs	1869	1742	831
Net Transfer Values	-2520	156	411
Employee/Employer Contributions	-24922	-26546	-13708
Cash from/to Managers	0	-315	-24
Internal Interest	-246	-241	-21
Movement in Year	-2967	-1326	1055
Balance C/F	-6673	-7999	-6944

2.3 In addition to the internally managed cash above, the fund has **£6.8m** cash on deposit with Lloyds Bank until 12 January 2010. This brings the overall cash position to **£13.2m**. **Members will need to give consideration as to whether to continue to place the £6.8m cash on deposit pending any further strategy decisions.**

2.4 Internally managed cash has been decreasing during 2009/10; the significant factor being the reduction in net transfer values (more members

transferring out than in). Officers will keep this trend under review and will make a more detailed report should the trend continue. Officers are of the view that the current level of cash remains sufficient for the cash flow requirements of the fund over the medium term.

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 30.09.09	12 Months to 30.09.09	3 Years to 30.09.09	5 years to 30.09.09
Fund	18.3%	9.2%	-1.9%	4.8%
Benchmark return	15.7%	8.0%	0.3%	6.0%
*Difference in return	2.2%	1.2%	-2.2%	-1.1%

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 30.09.09	12 Months to 30.09.09	3 Years to 30.09.09	5 years to 30.09.09
Fund	18.3%	9.2%	-1.9%	4.8%
Benchmark return	6.6%	16.3%	7.8%	9.9%
*Difference in return	11.0%	-6.1%	-9.0%	-4.6%

Source: WM Company

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

The fund has been under its new arrangements since February 2005; therefore historical performance greater than three years is no reflection of the new strategy. The Fund's revised strategy adopted in September 2008 has not been fully implemented and historical performance greater than one year 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 SEPTEMBER 2009)

	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	30.6	22.5	9.8	1.3
Benchmark	22.4	21.4	7.7	2.5
*Over/(Under) Performance vs. Benchmark	6.7	0.9	1.9	-1.1
TARGET	22.9	22.03	7.8	n/a
* Over/(Under) Performance vs. Target	6.2	0.4	1.7	n/a

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

	Standard Life	Alliance Bernstein	Royal London	UBS
ANNUAL				
Return (performance)	19.4	6.1	13.0	-25.7
Benchmark	10.8	11.3	11.2	-21.2
*Over/(Under) Performance vs. Benchmark	7.7	-4.7	1.6	-5.7
TARGET	12.8	13.8	11.9	n/a
* Over/(Under) Performance vs. Target	5.8	-6.8	0.9	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 9 November 09 at which a review of the quarter 3 performance was discussed.
- b) The value of the fund as at 30 September 09 increased by 30% since June 09. October valuation was down by 5%.

- c) Standard Life out performed the benchmark in the quarter by 6.7% and out performed the target in the quarter by 6.2%. Since inception they have outperformed the benchmark by 0.4% and underperformed the target by -1.5%. In October performance was down by 1.5% and so far in November performance is flat.
- d) Standard Life believe that the UK equity market continued to recover with the FTSE 100 Index delivering its best ever quarterly performance, making substantial gains over the quarter. A reassuring corporate earnings season helped to improve investor sentiment and was further boosted by economic data indicating that the UK economy is starting to move out of recession. For the second consecutive quarter smaller companies outperformed the large cap companies. There has also been a pick-up of activity in Mergers & Acquisitions. There will be a continuing raising of capital as companies look to bolster balance sheets.
- e) Standard Life believes that opportunities for active investors remain. Economic and investor confidence is improving and the equity market outlook remains positive.
- f) Contributors to performance were in; the Support Services sector which rallied on the back of improved economic outlook (Galiform, Travis Perkins, Ashtead and Northgate), the Mining sector which rallied on the back of financial stimulus packages, especially China (overweight in Xstrata, Vedanta and Kazakhmys, and the media sector picked up due to advertising revenues and successful capital raising (overweight in Trinity and Yell).
- g) Negative performance came from Aerospace & Defence (overweight in BAE Systems, QinetiQ).
- h) Top stock contributors were Trinity Mirror, British Airways and Xstrata.
- i) Bottom stock contributors were Standard Chartered (underweight in this stock as Standard life preferred HSBC) Prudential (again preferred Avivia) and Cadbury (underweight position but stock advanced following bid from Kraft).
- j) The portfolio activity during Quarter 3 were as follows :
- Purchased HSBC (strong balance sheet and liquidity position), GlaxoSmithKline (stock has preformed poorly but is a major beneficiary of swine flu pandemic) and Vodafone (valuation and yield attractive with further cost cutting to come).
 - Sold stocks in Ashtead, plant hire (outlook for UK & US construction industry now fully reflected in share price), Bovis Homes (profit taking after stabilisation in house prices), Aviva (recent run on stock has left valuation less compelling and management creditability low following

30% cut in dividend payouts) and Travis Perkins (ratings was starting to look stretched following a strong run).

- k) Standard Life was updated with the current position regarding investment strategy and was told that adverts were out at the moment for a passive manager and 10% of their active holdings would be reduced to fund the passive manager.
- l) There were no governance or whistle blowing issues to report.

4.2. Global Equities (Alliance Bernstein)

- a) Representatives from Alliance Bernstein are to make a presentation at this Committee, therefore a brief overview of the quarter 3 performance follows:
- b) The value of the fund as at 30 September 09 has increased by 22.8% since June 09 but reduced by 4.8% in October.
- c) Alliance Bernstein outperformed the benchmark by 0.9% and outperformed the target by 0.4% (Net of fees). Since inception they are above benchmark by 0.4% but below target by -1.5% (Net of fees).
- d) The positive attributes to performance was stock selection which was partially offset by negative performance in sector and currency selection.

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 9 November 09 at which a review of the quarter 3 performance was discussed.
- b) The value of the fund as at 30 September increased by 10% since June 09 and the valuation in October was up by a further 1%.
- c) Royal London outperformed the benchmark for the quarter by 1.9% and 1.7% against the target. Since inception they are 1.6% above the benchmark and 0.9% above target. Out performance continued for October.
- d) Royal London at their presentation to the committee in September had reported on the performance of the portfolio up to end of August. Therefore this officer briefing, as requested, mainly focused on training and interpretation of their reports.
- e) Positive attributes to performance came from stock selection in government bonds (conventional and index linked), the overweight position in credit

bonds and the sector selection within the credit bonds, in particular the exposure to financial and asset backed bonds.

- f) Asset allocation of the fund during the quarter was 52.8% Sterling Credit Bonds, 32.3% UK Index Linked, 12.2% UK Conventional Government Bonds, 1.4% overseas Fixed Interest Bonds and 1.3% cash.
- g) Royal London activity during the quarter as follows:
- Increased duration on government bonds
 - Sold index linked bonds into strong rally
 - Increased exposure to overseas government bonds
 - Decreased exposure to financial sector Tier 1 bonds
 - Reduced duration of credit bonds
- h) Royal London was asked about the impact on the fund of some banks announcing that they will stop paying coupons (interest) on some debts. Royal London sent through a response after the meeting. They have said that they believe that the risk of coupon deferral is relatively contained through a combination of low absolute exposure, prices that are already discounting some of the risk of deferral where they do maintain holdings and the continuing likelihood that any suspension of coupons will precipitate beneficial capital restructuring.
- i) 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.
- j) The bonds that were downgraded since this arrangement have been included in the Fund Manager's quarterly report. Royal London believes that it was the right decision to hold on to the downgraded bonds but are looking at opportunities to sell if they think the money can be used for better opportunities. Royal London explained that they only use credit agencies as first call but they do their own research as to whether they are default or senior bond.
- k) There were no governance or whistle blowing issues to report.

4.4. Property (UBS)

- a) Representatives from UBS are to make a presentation at this Committee, therefore a brief overview of the quarter 3 performance follows:

- b) The value of the UBS Triton Property Fund as at 30 June has seen a slight increase of 1.7% since June 09 and a decrease of 11.25% since the last meeting with members in December 08. In October there was a marginal increase of 0.9%.
- c) UBS out performed the benchmark in the quarter by 1.3%, its first positive return after eight quarters. UBS believe that this is being driven by demand for prime assets, which is pushing prices of commercial property higher. Performance over the last 12 months is behind benchmark by -5.8%.

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:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 30 September 2009
Alliance Bernstein Quarterly report to 30 September 2009
Royal London Quarterly report to 30 September 2009
Western Asset Quarterly report to 30 September 2009
UBS Quarterly report to 30 September 2009
The WM Company Performance Review Report to 30 September 2009
Hyman's Monitoring Report to 30 September 2009



PENSIONS COMMITTEE

15 December 2009

REPORT

Subject Heading:	REVIEW OF THE PENSION FUND CUSTODIAN
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: debbie.ford@havering.gov.uk
Policy context:	Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
Financial summary:	Cost of custodian services was £126,431 in 2008/09.

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 reviews the annual performance of the Custodian, State Street, for the period April 2008 to March 2009.

RECOMMENDATIONS

It is recommended that the Committee notes the views of officers on the performance of the Custodian and makes any comment on the report which it considers appropriate (section 3 refers).

REPORT DETAIL

1. Background

- 1.1 At its meeting of 8th September 2004, Members were informed that following a competitive tender process, State Street had been appointed via a Chairman's decision to provide an investment custodial service to the Havering Pension Fund. State Street was appointed for the period from 31 December 2004 until terminated by either party. The Council may terminate this agreement by giving at least 28 days notice. The Custodian may terminate the agreement by giving at least 90 days notice.

2. Review of the Custodian's performance

- 2.1 Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer. This is the fourth formal assessment of the custodial service by this Committee.
- 2.2 At the last review officers reported that they were satisfied with the safe keeping and custody functions provided by State Street.
- 2.3 Officers also reported in the last review that they were pleased with the improvements made to the Investment Accounting and Reporting functions but officers were continuing to monitor this closely to ensure that the new reporting requirements of the Statement of Recommended Practice (SORP) introduced for 2008/09 were incorporated. No issues have yet been identified in meeting the new SORP requirements that were introduced for the 2008/09 accounts.
- 2.4 The Global Custodian State Street operate a wide range of functions. This falls into two main categories:
- Safe Keeping and Custody
 - Investment Accounting and Reporting.

- **Safe Keeping and Custody**

This refers to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions are received appropriately. The Custodian also manages the tax position of the fund, claiming back any recoverable overseas withholding tax paid on dividends received and maintaining the tax records of the fund.

- **Investment Accounting and Reporting**

State Street produce accounting reports that are similar to those the investment managers produce for the fund. They keep a record of the book costs in the various asset classes and also provide a market valuation of the fund. This is done for each of the investment managers' portfolio as well as at the total fund level. State Street records are therefore considered to be master records and these records are used for accounting purposes.

The review shown below is set out in the same format as last year. The results of the review of performance are set out in the table below and have been discussed with State Street.

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.</p> <p>It is important that accurate accounting records are maintained and appropriate reconciliations are provided with the numerous fund managers, investment advisers and performance measurers.</p> <p><i>Officers have confidence that the assets are secure and accounted for correctly.</i></p> <p><i>Officers have confidence that accurate accounting records are maintained. State Street produces quarterly reconciliations of valuations to fund manager records. Where differences occur, outside the agreed tolerance levels, explanations are provided. State Street and officers also undertake quarterly reconciliations of accounts in the SORP format and this process is proving to be successful in that potential errors are identified early and can therefore assist the closedown process at year end.</i></p>
Safe keeping and custody	<p>This relates to the core functions of the custodian.</p> <p><i>Officers are appreciative of how this role is</i></p>

CRITERIA	ASSESSMENT
	<i>performed and believe that this is a high quality service.</i>
Prompt and responsive service	<p><i>Timeliness of invoices issued has improved and the level of errors has reduced. Response times to invoice queries have greatly improved. It is time consuming having to recheck invoices and officers will continue to monitor this.</i></p> <p><i>There were some delays in resolving some reconciliation issues in the later part of 2008/09 which caused some delay to the closure process. State Street will look at the issues causing the reconciliation problems so as to avoid them occurring in the future.</i></p>
Support arrangements	<i>The support arrangements in place are good.</i>
Good communication	<p><i>Monthly reports are produced in CD format within prescribed timetables but State Street will be looking at improving the timeliness of issuing these reports. These reports are comprehensive but the data still requires reformatting and supplementing by additional reports in order that LBH officers can produce the accounts in the format as recommended in the (SORP). There have been issues with some of the data on the CD's being incomplete. State Street to undertake better checks to avoid this occurring in the future.</i></p> <p><i>State Street has been developing automatic reports that follow the SORP format but these reports were still not available during 2008/09. It was anticipated that these reports will be available in 2009/10. State Street have been piloting these reports with other clients and are now confident that these can be ready for LBH to use in the later part of 2009/10. Officers are mindful of switching to the new reporting system so close to closure of accounts, so State Street will also continue to provide SORP reports in the manual format until officers are confident with the new arrangements.</i></p> <p><i>No issues have yet been identified in meeting the new SORP requirements that were introduced for the 2008/09 accounts.</i></p>

CRITERIA	ASSESSMENT
Provision of data for the Office of National Statistics (ONS) Returns	<i>State Street has improved the timeliness of this data but can only deliver audited data following completion of reports at month end. ONS completion deadlines often coincide with State Streets reporting timetable and this will continue as it is unlikely that the ONS will relax their completion deadlines.</i>
Overall Summary	<i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions but would like to see further improvements made for Investment Accounting and Reporting functions.</i>

3. **Conclusion**

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street.
- 3.2 Officers are pleased with the improvements made to the investment accounting and reporting functions and State Street are currently seeking to make further improvements to improve the accuracy and timeliness of data provided. Officers will continue to monitor State Street to ensure that the level of improvement is sustained and that the implementation of the new reporting system is satisfactory.

IMPLICATIONS AND RISKS

Financial Implications and risks:

The cost of custodian services for the year to 31 March 2009 was £126,431. These costs are met from the Pension Fund. 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.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

None arising directly

Equalities implications and risks:

There are no equalities implications to this report

BACKGROUND PAPERS

Working papers held within Corporate Finance