

PENSIONS COMMITTEE

AGENDA

7.30pm

Tuesday,
18 March 2008

Havering Town Hall,
Main Road, Romford

Members 6: Quorum 3

COUNCILLORS:

Conservative Group

(4)

Melvin Wallace - (Chairman)

Roger Ramsey - (V.Chairman)

Robby Misir

Robbie Benham

Residents' Group

(2)

Clarence Barrett

Linda van den Hende

Trade Union Observers

(No Voting Rights)

(2)

Brian Long (Unison)

Sean Ramsden (TGWU)

Admitted / Scheduled Bodies Representative

(No Voting Rights)

(1)

Vacancy

For information about the meeting please contact:

Norman Bond (01708) 432439

E-mail: Norman.Bond@haverling.gov.uk



NOTES ABOUT THE MEETING

1. HEALTH AND SAFETY

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

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

2. MOBILE COMMUNICATIONS DEVICES

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

3. CONDUCT AT THE MEETING

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

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

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

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

AGENDA ITEMS**1. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2. APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS
(if any) - receive.**3. DECLARATION OF INTERESTS**

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

4. MINUTES OF THE MEETINGS OF 18 DECEMBER 2007 AND 12 FEBRUARY 2008

To approve as a correct record the minutes of the meeting held on 18 December 2007 and special meeting held on 12 February 2008 and authorise the Chairman to sign them.

5. ANNUAL REPORT OF THE COMMITTEE 2007/08 AND ANNUAL PLAN AND TRAINING PROGRAMME 2008/08**6. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2008**

6.1 Hymans Robertson LLP

6.2 Standard Life Investments

6.3 Royal London Asset Management

7. URGENT BUSINESS

Cheryl Coppel
Chief Executive

Pensions Committee, 18 March 2008

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

18 December 2007 (6.00pm – 9.15pm)

Present:

COUNCILLORS:

Conservative Group Melvin Wallace (in the Chair), Robert Benham,
Robby Misir and Roger Ramsey

Residents Group Clarence Barrett

Also present was Mr Brian Long (Unison)

No apologies for absence were received

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

There were no declarations of interest

17. MINUTES

Following minor amendment the minutes of the meeting held on 15 November 2007 were agreed as a correct record and signed by the Chairman.

18. RESULTS OF ACTUARIAL REVIEW

A presentation was given to Committee Members by the Pension Fund's Actuaries (Hewitt Bacon & Woodrow Limited) regarding the outcome of the 2007 actuarial revaluation. This detailed the basic financial and demographic assumptions undertaken to provide the final results.

The approach adopted in 2004 is being repeated in 2007.

An accompanying set of presentation notes was provided to Committee Members at the training session prior to the Committee meeting.

The Committee noted the Actuarial presentation.

The Chairman thanked the Actuary's representative for his precise presentation.

19 INVESTMENT MANAGERS REPORT

A representative of Hymans Robertson LLP presented a review of third quarter fund performance.

Reference was made to the US debt problems and the drying-up of inter-bank markets. The Government bond market had demonstrated strength with emerging market economies holding up well against market pressures. Negative returns were being seen in the property market.

The Committee heard that all managers had underperformed in the third quarter. Full details were provided to Members in a comprehensive report.

Discussion and further consideration of appendix B was deferred until after the fund managers' presentations.

The Committee considered and noted the report and performance summary.

The representative of Hymans Robertson was thanked for his presentation and asked to remain to assist the Committee during the presentations by the asset managers

20 OVERALL MONITORING REPORT ON PENSION FUND TO END OF SEPTEMBER 2007 – three presentations

The Committee received a **presentation from Alliance Bernstein Asset Managers.**

Alliance Bernstein managers referred to their presentation report as provided to Members

Alliance Bernstein underperformed the benchmark by -8.0 and underperformed the target by -1.43 in quarter 3.

Over the last 3 years there have been less opportunities to take risks although volatility had recently returned to the market. Value until this year was very strong however of late. Growth has taken style and had performed better in the third quarter. In the period June – September 2007, financial sector stocks were depreciators and the current selection had negatively impacted the fund.

Alliance Bernstein comments to the Committee was that growth was now much tougher to find in the market, but value is where the challenge will be. Value now looks at its most unattractive for 35 years but opportunities may exist in financials stocks. The portfolio had been overweight in this sector for too long although this was felt to be a timing issue. Members were advised that it will be necessary to have the courage of our conviction regarding financial stocks. Estimates of the sub-prime risk were conservatively stated at

about 4% and anxiety was overtaking investor behaviour creating a mismatch. Much of the misjudgement of stock performance in this sector had been due to the alacrity with which liquidity had evaporated in the market. Members were told that market financial sector underpinning is currently taking place and over the long term this will come through.

A question regarding the currency element's performance was put to the managers on the Committee's behalf by Hymans Robertson. The managers responded stating that the currency markets had performed poorly due to their underlying link to the equity falls and that the manager's Growth and Value teams were constrained by the weighting levels required at the blend level.

The Chairman thanked Alliance Bernstein for their presentation.

The Committee then received the **presentation by Western Asset Managers**

Western Asset Managers referred to their presentation report supplied to the Committee.

Westerns underperformed the benchmark by -1.3% and the target by -2.05% for quarter 3. Since inception Westerns have outperformed the benchmark by 0.8% but underperformed the target by -2.2%.

Managers advised Members that at the end of June 2007 their portfolio had large holdings in the High Yield and US Mortgage markets. As a result the portfolio had under performed in the third quarter due to the credit market and US sub-prime problems. The managers believe this could lead to opportunities in these sectors in the future.

The returns by sector were outlined . It was noted that the third quarter had seen more interest rate risk. There had been some very severe market underperformance and it was disappointing that the managers had an underweight in UK government bonds where rises had been seen due to the flight for quality from elsewhere. The managers emphasised that in the third quarter the biggest move in the financial system had been seen with asset packages being marked down indiscriminately leading to a downward spiral, although they confidently predicted corporate bonds in the banks will come back.

Global High Yields had underperformed cash by 3% in the third quarter. Members commented that over this period cash may have provided a better investment with a saving in respect of management fees.

In outlining their future strategy the managers wished to add more high yields and some financials which they still considered a good investment. The Committee were informed of US Government action to reduce/stop repossessions and bolster the falling US credit market. It was expected that stabilisation will take about 9 months to filter through with banks try to improve

their balance sheets and the Euro economy remaining strong. A move into auto stocks including General Motors had been made. It was also hoped that normalisation could bring some capital appreciation especially in the longer term. The current value of Western Asset Managers portfolio was stated at £29.5 M

The Chairman again thanked the managers for their presentation.

UBS Property Managers presentation was made to the to Committee

Members were provided with fresh report material however this still did not demonstrate the value of the Council's asset stake in their control. UBS were asked to ensure both performance and value are provided in future reports. UBS will supply the asset value figures to the Council over the next few days.

Triton fund returned an underperformance of -1.0%. This is consistent with a general fall in capital values across the market. UBS compounded this performance. The decline was uneven in its effects on Triton properties, those with asset management potential were impacted much less than other assets. Valuations also appear to be increasingly driven by market sentiment.

Movement in LIBOR and Swap rates had not been market favourable. Long-term forecasts do not predict yields returning to the levels of 2 years ago. There is a real degree of uncertainty in the valuation market as take up of large office provisions are put on hold, especially in London and the South East. UBS confirmed that they were exposed to this area of the market.

Members attention was drawn to the un-g geared nature of the UBS Triton fund, who's total value at 30 September 2007 was placed at £2.5 bn. It was also noted that the value is now lower, £90 M of property having been sold in the third quarter.

The SDLT partnership legislation issues were outlined for Members. The managers informed the Committee of representations and negotiations undertaken with the Treasury officials to retrospectively adjust the impact of the 2007 Finance Act.

The legislation imposed a 4% tax on subscriptions and redemptions plus the existing 4% on property transactions. UBS were forced to suspend the fund and withhold 4.25% of all redemptions. The managers are currently working around the regulations and trying to preserve redemption rights. Limited trading is now being undertaken in the forth quarter. The manager stated they believe the risk to the fund to be small.

The Committee heard that both the HM Revenue & Customs and the Treasury had admitted the effects of parts of the legislation were a mistake and assurances had been given that adjustment would be made within the 2008 Act.

The managers expanded on the sector's weighting confirming the fund had some over-weight in retail where the returns remain good. It was intended to increase their current weight in retail warehousing but reduce their holding in industrials especially in London and the South East. Whilst the fund has its largest exposure in the London / South East office sector, managers were comfortable with this position for the present although this market may fatten out by mid 2008.

The managers were questioned regarding the redemptions position in light of the SDLT problems. The managers responded confirming that like most funds they have a 12 month waiting period for redemptions allowing sales to filter through without the need to resort to forced sale values. Members were also informed that the managers felt the redemption queue had slowed and the market was now showing signs of coming out.

UBS Property Managers were thanked for their presentation.

The Committee considered each of the investment managers quarterly reports.

EXEMPT ITEM

The Committee returned to consider the exempt item (appendix B) from The Investment Managers report.

Hymans Robertson representative presented the background information in his report. This provided performance related and fixed fee structuring options for the various fund managers remuneration. The Committee were advised that any contract and fee structure will probably need to be on a 12 month rolling mandate.

Following discussion **the Committee deferred** any decision on the restructuring of managers fees until the investment strategy review in 3- 4 months

21. URGENT BUSINESS

Members were advised that due to a Central Government imposed response timetable, it is necessary to reply to a consultation paper on new Pension Scheme 2008 proposals by 12 January 2008. This has prevented a normal report being presented to the Committee.

The pension fund has currently for two tiers of ill-health provision. The new proposal outlined in the government document suggest this be made three. The new tier would involve immediate inability to work within the local authority environment but following assessment by occupational health

professionals a possible future return to work remains. The Council has the ability to track those regaining employment within Local Government and the NHS but has no means of establishing the position elsewhere.

The former employee would receive the accrued benefit to the date of leaving and is expected to notify the employer once they have found gainful employment, defined as 30 hours or more each week.

Officers outlined their concern over this proposal to the Committee. It appears the new tier could remove the incentive to return to employment, increase the number of appeals to move between tiers due to the former employee's need for additional income, therefore adding considerably to the administrative requirements / costs to the fund and the create practical difficulties in monitoring any future former employees return to the employment market.

Officers proposed response to the consultation was outlined to Members

The Committee. agreed that the response be raised by the lead officer and sent once it had been seen by the Committee Chairman. A copy shall be appended to the minutes.

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

12 February 2008 (3.00pm – 4.40pm)

Present:

COUNCILLORS:

Conservative Group Melvin Wallace (in the Chair), Robert Benham,
Robby Misir and Roger Ramsey

Residents Group Linda van den Hende

Apologies for absence were received from Councillor Clarence Barrett

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

There were no declarations of interest

22. INVESTMENT STRATEGY REVIEW – Presentation by Hyman Robertson

A presentation giving details of the necessary considerations for the Investment Strategy Review was given to Committee Members by the Pension Fund's Investment Advisors, Hyman Robertson.

The Committee was reminded that it was over 5 years since the last major investment strategy review was undertaken. This now followed the recent triennial actuarial valuation of the Pension Fund. The process should involve taking a step back and looking at the strategy of the scheme.

The review will look at the best way for the fund to invest to meet its liabilities.

As Pension Fund liabilities are a moving field it will be necessary to examine Havering's liability profile. The previous strategy resulted in a different strategy from Havering's other local government peers.

Members were informed that it would not be sufficient just to simply target to out-perform other Local Authority funds, but instead focus on closing the Havering's funding gap using a bespoke mix of asset solutions.

Hymans outlined the review processes using Asset Liability Modelling (ALM) (Phase 1) and Structure Modelling (Phase 2) that could examine a great number of investment scenarios with a wide range of probability and risk. The model's results can look at the effect on funding and contributions levels, forecast likely outcomes and lead to a set of asset allocation decisions.

The presentation provided the Committee with four types of outcome illustrations using three diverse investment scenarios. Each used different assumptions, stabilisations and weightings towards equities, however the illustrations shown to the Committee were only examples of how the Investment Strategy process could work. When presented, Havering's report will be very specific to the Borough's Pension Fund.

The Committee were also shown examples of Asset Liability Modelling (ALM) and Structure Modelling that included the use of stabilisation mechanisms, various mixes of equities and bonds (in incremental steps), assessments of the probabilities of contribution rates and funding levels, the use of property as a good balancing element and other classes of assets that offer returns similar to equities with less volatility.

An alternative, approach to using ALM would be to use Hymans to undertake comparisons with other London Boroughs and use a more subjective view of general market trends for its asset comparisons. The Investment Advisor explained why they were not keen on this approach, believing ALM is the more effective way forward as the Fund's strategy could potentially change significantly.

Members were provided with an approximate timetable for the completion of the strategy review and likely costs. The variable being, obtaining the provision of data from the Fund's actuaries (Hewitt Bacon & Woodrow Limited). The timetable presented excluded the potential procurement process that could add further time.

In response to Members questions the Committee noted that Local Government Pension Scheme (LGPS) employee contribution rates are set nationally and although Central Government has agreed changes to employee contribution rates, these have already been built into Fund valuations, and the ALM will look at various variables including employer contribution rates.

The Investment Advisor confirmed that once the investment strategy was set, some mid-cycle switch of weighting could be possible in response to market conditions. This will be determined by matching the individual managers' performance returns to the funding needs of the Pension Fund and can form part of the structure modelling phase of the review.

Concern was expressed regarding the possibility of un-ethical investments being made. The Investment Advisor informed the Committee that restrictions of this type do not exist at present and whilst the use of Ethical Funds could be considered, this may depress the returns available and therefore a restriction of this nature may not be in the best interests of the Pension Fund. The Investment Advisor recommended engagement of managers rather than restriction.

The Chairman thanked the Hymans Robertson for their detailed presentation.

The Committee noted the Investment Managers presentation.

The Committee agreed to pursue an Asset Management Liability study.

The Committee also agreed that delegation be provided to the Finance and Commercial Group Director, in liaison with the Committee Chairman and Vice-chairman, to discuss and agree with the Investment Advisor the assumptions to be modelled as outlined in Phase 1 of the process within his presentation to the Committee.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	18 MARCH 2008	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: ANNUAL REPORT OF THE COMMITTEE 2007/08 AND ANNUAL PLAN AND TRAINING PROGRAMME 2008/09

SUMMARY

This report sets out the work undertaken by the Committee in the last year and the plan of work for the following year along with an assessment of the training requirements for Members of the Committee.

RECOMMENDATION

1. Members agree the Annual Report of the Committee.
2. Members agree the Annual Report of the Committee be reported to full Council in June.
3. Members note the proposed work plan for the forthcoming year.
4. Members add any areas/topics that they want covered having regard to the information/reports elsewhere on the agenda.
5. Members consider and agree the training proposals, identifying and incorporating any other needs.

REPORT DETAIL

1. The Pensions Committee has, in recent years, prepared an Annual Report. This has covered both Committee activity and the general performance of the Fund. The latter is now a legal requirement and will be prepared as part of the annual Accounts process. It is, however, appropriate to continue to prepare a separate report on the activity of the Committee and for this to be reported to Council on an annual basis.

In line with this, a report is attached as Appendix A. Information on the Fund performance will be advised to all members when it becomes available.

2. Specific and detailed training was undertaken during 2007 and this is summarised in Appendix B.
3. The Pensions Committee is planned to meet five times over the next municipal year for normal activity. In addition a review of the Investment Strategy is taking place. These other Committees will take place during the day/early evening given the content and work involved. The work plan for these is attached as Appendix C.

Last year it was planned in order for Members to obtain a knowledge of how the managers work on the ground, that one of the Officer Monitoring sessions per Manager takes place at the offices of the Manager and that Members have the opportunity to attend. Unfortunately, this has not been possible but it is intended to occur in 2008/09 where possible. The dates of meetings are set out in the attached and Members are requested to advise the Pensions Accountant if they wish to attend the sessions. The visit will be arranged so that Members and Officers can understand the operations as well as attend a monitoring meeting.

4. It is important that all the Members of the Committee are adequately trained and briefed to achieve the terms of reference of this Committee which are:
 - To consider and agree the investment strategy and statement of investment principles for the pension fund
 - Where appropriate and above staff delegation levels to authorise the invitation of tenders and the award of contracts for actuaries, advisers and fund managers or other related investment matters
 - To appoint and review the performance of advisers and investment managers for Council and pension fund investments
 - To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7,12 or 24 of the Superannuation Act 1972

5. Having regard to the work plan, it is intended to organise formal training sessions in respect of:
 - (a) the implications of changes in service delivery and options for the Pension Fund via the Actuary;
 - (b) other relevant topics, having regard to the review of the Investment Strategy and the related key decisions, including the Statement of Investment Principles.
6. Members are also requested to review the attached self assessment (Appendix D) and identify any other training needs to the Pension Fund Accountant.

Financial Implications and Risks:

1. None arising directly.
2. Training costs are met from the Pension Fund directly or via the Advisor Fee.
3. The Advisor Fee includes provision for two sessions and one of the sessions re: service delivery will be delivered via the actuary.
4. There is a considerable risk of poor decision making if Members of Committee are not trained in investment matters.

Legal Implications and Risks:

The specialist training of those Members who oversee the administration of the Council Pension Scheme is highly desirable in order to help show the proper administration of the scheme. The Council's Constitution recommends that the Membership of the Pension Committee remains static for the life of the Council for the very reason that Members need to be fully trained in investment matters. The life of the Council is considered to be the four year term.

Human Resource Implications and Risks:

None arising directly.

Staff Contact: Rita Greenwood

Title: Group Director
Finance & Commercial

Telephone: 01708 432218

CHERYL COPPELL
Chief Executive

Background Papers

See Appendix A

APPENDIX A



HAVERING PENSION FUND

**REPORT ON THE WORK
Of the
PENSIONS COMMITTEE**

MARCH 2008

Financial Services
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Romford, Essex, RM1 3BB

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INTRODUCTION

The Havering Pension Fund provides benefits to Council employees (except teachers). The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. It is therefore beneficial to issue an Annual Report to all Council Members on the Havering Pension Fund and the work of the Pensions Committee.

This report covers the period 1st April 2007 to 31st March 2008 and outlines:

- The work of the Pensions Committee
- Key issues arising during the course of the year

The financial position of the Havering Pension Fund and the performance of the Pension fund investments feature as part of the formal report of the Fund itself, which is prepared later in the year.

BACKGROUND TO THE PENSION FUND

The Council is an administering Authority under the Local Government Pension Scheme Regulations and as such invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is called the Havering Pension Fund.

The value of the Fund as at 31st March 2007 was £366m. This was invested in equities in listed companies both in the UK and overseas, fixed interest securities, property funds and cash.

The Council sets the overall investment strategy of the Fund and monitors performance of five different managers (who have specific mandates) against an agreed performance in relation to an agreed benchmark. The Council had delegated this responsibility to the Pensions Committee.

THE MANAGEMENT STRUCTURE

Pensions Committee during 2007/08

Cllr Melvin Wallace (Chairman)
Cllr Roger Ramsey (Vice Chairman)
Cllr David Charles – replaced by Cllr Benham
Cllr Robby Misir
Cllr Clarence Barrett
Cllr Linda van den Hende

Non voting Union Members:
Brian Long (Unison)
Michael Parker (TGWU)

The terms of reference are:

- To consider and agree the investment strategy and statement of investment principles for the pension fund
- To authorise the invitation of tenders and the award of contracts for actuaries, advisers and fund managers or other related investment matters (where not covered by existing delegation arrangements)
- To appoint and review the performance of advisers and investment managers for Council and pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

Fund Actuary	Hewitt Bacon & Woodrow
Auditors	Audit Commission
Custodians	State Street Global Assets
Investment Managers	Standard Life Investments (UK Equities) Royal London Asset Management (Investment Bonds) Western/Citigroup (Global High Yield Bonds) Alliance Bernstein Institutional Investors (Global Equities) UBS (Property)
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)
Performance Measurement	WM Company

PENSION COMMITTEE DATES

The Committee met a number of times and Annex A sets out the coverage. In addition, the Committee had the first meeting of a cycle of meetings to review the investment strategy.

TRAINING AND DEVELOPMENT

Training and development took place over the year to ensure that Members of the Committee were fully briefed in the decisions they were taking. This covered:

- Interpretation of Monitoring Reports
- Overview of Strategy decisions
- Understanding Actuarial results
- Preparing for an Investment Strategy Review

A training and Development Plan is in place for 2008/09.

KEY ISSUES ARISING IN THE PERIOD

- **Communication Strategy and Governance Policy**

In line with the 1997 Local Government Pension Scheme (LGPS) regulations the London Borough of Havering as an administering authority has undertaken an annual review of the Pension Fund's Communication Strategy and Governance Policy.

- **Whistleblowing Requirements of the Pensions Act**

An annual review was undertaken.

- **Review of Statement of Investment Principles and Funding Strategy Statement**

The process of a fundamental review has commenced in the light of the Actuarial results.

- **Annual Report for Members of the Fund**

This was reviewed and approved for distribution.

- **Reviewed performance of Advisers, Custodians and Actuary**

- **Commenced a new contract for Investment Advice**

- **Considered performance of Pensions Administration Service**

- **Received the results of the Actuarial Review**

PLAN FOR 2008/09

A plan has been prepared along with associated training.

ANNEX A

JUNE 2007	<ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the quarter Ending 31 March 2007 • Circulation of Report on the Work of the Investment Committee • Performance of the Pensions Administration Service 2006/07
SEPTEMBER 2007	<ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the Quarter Ending 30 June 2007 • Statement of Accounts – Year Ended 31 March 2007
NOVEMBER 2007	<ul style="list-style-type: none"> • Annual Review of Custodian • Report to Pensioners and Contributors of the Pension fund 2006-2007 • Review of the Investment Adviser • Review of the Actuary • Review of the Pension Fund's Communication Strategy and Governance Policy • Whistleblowing Report
DECEMBER 2007	<ul style="list-style-type: none"> • Results of Actuarial Review • Investment Managers Report • Overall Monitoring Report on Pension Fund to End of September 2007
FEBRUARY 2008	<ul style="list-style-type: none"> • Investment Strategy Review
MARCH 2008	To be completed once agenda known.

APPENDIX B

PENSIONS COMMITTEE MEMBER INFORMAL TRAINING 2007/08

DATE	TOPIC COVERED	LOCATION	ATTENDED BY
26 June 2007	Informal training by Investment Advisor (Hymans) doing: <ul style="list-style-type: none"> • Interpretation of monitoring report 	Before Committee meeting at the Town Hall	Cllr Wallace Cllr Misir Cllr Barrett Cllr Ramsey (last half hour)
20 September 2007	Informal training by Investment Advisor (Hymans) doing: <ul style="list-style-type: none"> • Overview of Strategy Decisions 	Before Committee meeting at the Town Hall	Cllr Wallace Cllr Barrett
19 November 2007	All members sent a copy of 'Trustee Guide 2008' published by Engaged Investor magazine.	Via email	All
18 December 2007	Training by Actuaries (Hewitts): <ul style="list-style-type: none"> • Understanding Actuarial Results 	Before Committee meeting at the Town Hall	Cllr Wallace Cllr Benham Cllr Misir Cllr Ramsey
12 February 2008	Training by Hymans: <ul style="list-style-type: none"> • Preparation for Investment Strategy Review – Asset Liability Modelling and Structure modelling process explained. 	Pensions Committee (Special Meeting)	Cllr Wallace Cllr Van den Hende Cllr Benham Cllr Misir Cllr Ramsey (attended for some of the session)

APPENDIX C

PENSION FUND INVESTMENT MANAGERS MEETINGS AND COVERAGE

	18 MARCH 2008 (1 March)	1 JULY 2008	25 SEPTEMBER 2008 (could be 25/9)	13 NOVEMBER 2008	16 DECEMBER 2008	17 MARCH 2009 (check 19 May is needed)
Formal Committees with Members	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of December: <ul style="list-style-type: none"> a) UK Equities Manager b) UK Bonds Manager c) Property ▪ Annual Training Plan and Work Plan Review inc work of Committee ▪ Report taking on board reg changes for: <ul style="list-style-type: none"> * Flexible retirements * Banding options ▪ Response to consultation on Admitted Body Provisions 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to March inc. <ul style="list-style-type: none"> a) Global Equities Manager b) Global Higher Yielding Bonds Manager ▪ Annual Report on activity of Pensions Admin 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of June: <ul style="list-style-type: none"> a) UK Equities Manager b) UK Bonds Manager ▪ Pension Fund Accounts inc annual report requirements (i) then on to Council (?) 	<ul style="list-style-type: none"> ▪ Annual review of Custodian ▪ Pension Fund leaflet ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Communications/ Governance Policies ▪ General report on Panel Activity; IDRPs policy; discretions – 100 weeks only – 100 weeks done verbally ▪ Whistleblowing Annual Assessment ▪ Administration Strategy (regs change) if necessary ▪ Stakeholder/ Regs review on pensions as required 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of September inc. <ul style="list-style-type: none"> a) Global Equities Manager b) Global Higher Yielding Bonds Manager c) Property 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of December: <ul style="list-style-type: none"> a) UK Equities Manager b) UK Bonds Manager
Officer Meeting	<ul style="list-style-type: none"> ▪ Global Equities ▪ Global High Yield Bond Manager <p>Meeting : 7 Feb 08 (pm)</p>	<ul style="list-style-type: none"> ▪ Advisor Review ▪ UK equities ▪ UK Bonds ▪ Property <p>Meeting: 7 May 08 (pm)</p>	<ul style="list-style-type: none"> ▪ Global Equities Manager ▪ Global High Yield Bond Manager ▪ WM presentation <p>Meeting: 6 Aug 08 (am)</p>	No meeting	<ul style="list-style-type: none"> ▪ UK Equities ▪ UK Bonds Manager <p>Meeting: 6th Nov 08 (am)</p>	<ul style="list-style-type: none"> ▪ Global Equities ▪ Global High Yield Bond Manager <p>Meeting: 10 Feb 09 (pm)</p>

Note:

Investment Strategy, FSS and SIP are subject to a review outside of the routine coverage.

SELF ASSESSMENT

PENSIONS COMMITTEE

I believe I am competent to agree the Investment Strategy of the Pension Fund	Yes / No
I believe I am competent to agree the Statement of Investment Principles	Yes / No
I understand my role in monitoring the Pension Fund performance	Yes / No
I feel capable in monitoring the Managers	Yes / No
I understand the balance of risk versus return	Yes / No
I understand the impact of different matters on the Fund	Yes / No
I understand the challenges being fixed by the LGPS	Yes / No
I understand my role	Yes / No

Date

Councillor

Signed



MEETING	DATE	ITEM
PENSIONS COMMITTEE	18 MARCH 2007	6

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31ST DECEMBER 2007

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30th September 2007. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the quarter to 31st December 2007 was **-1.0%**. This represents an under performance of **-2.0%** against the combined tactical benchmark and an underperformance of **-6.8%** against the strategic benchmark.

The overall net return of the Fund's investments for the year to 31st December 2007 was **2.0%**. This represents an underperformance of **-2.2%** against the annual tactical combined benchmark and an underperformance of **-3.5%** against the annual strategic benchmark.

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

RECOMMENDATION

That the Committee:

1. Considers Hymans performance monitoring report and presentation (Appendix A).

2. Receives presentations from the funds UK Equities Manager (Standard Life) and the Investment Grade Bond Manager (Royal London).
3. Notes the summary of the performance of the Pension Fund within this report.
4. Considers the quarterly reports provided by each investment manager.
5. Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6. Considers any points arising from officer monitoring meetings.
7. Notes the analysis of internal cash balances (paragraphs 2.2 and 2.3)

REPORT DETAIL

1. Background

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

1.2 As part of the Statement of Investment Principles a strategic benchmark was adopted for the overall Fund of Gilts + 3.6% gross (3% net) per annum.

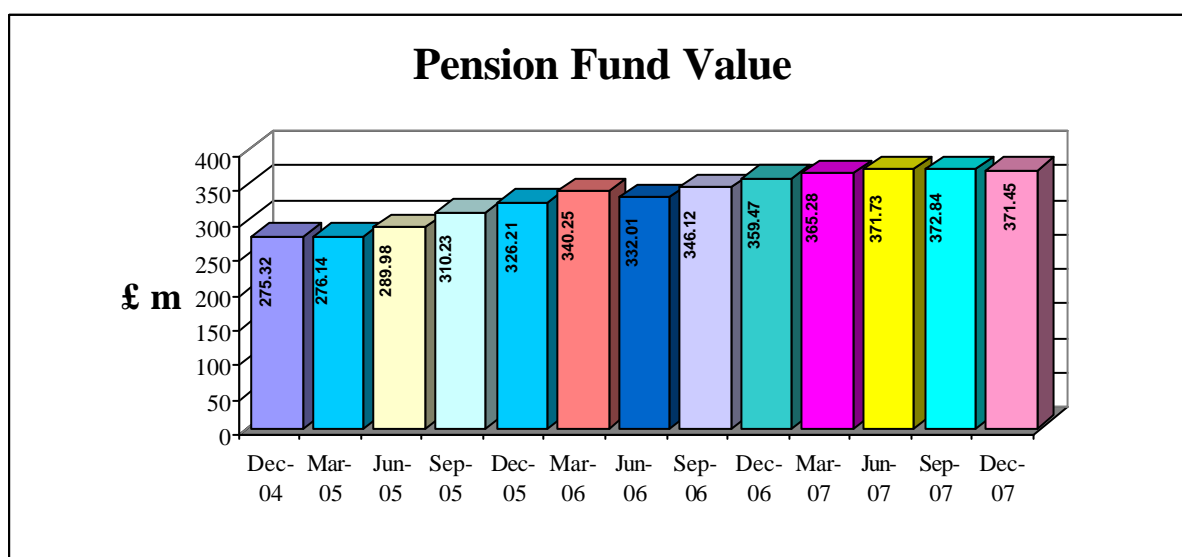
1.3 In addition to the strategic benchmark adopted above, each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is appropriate to the type of investments being managed. These are shown in the following table:

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target (net of fees)
Standard Life 30%	UK Equities	FTSE All Share Index	2%
Alliance Bernstein 20%	Global Equities	MSCI All World Index	2.5%
Royal London Asset Management (RLAM) 30%	Investment Grade Bonds	<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%
Westerns 10%	Global High Yield Bonds	Gilts	3.0% (gross)
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	n/a

- 1.4 Both Western Asset and UBS manage the assets on a pooled basis. Standard Life, Royal London and Alliance Bernstein manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.
- 1.5 Since the Quarter 3 (September 06) Report, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).
- 1.6 Managers are invited to present at the Pensions Committee Meeting every 6 months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. Managers who are to make presentations to this Committee are:
- UK Equities Manager (Standard Life),
 - Investment Grade Bond Manager (Royal London).
- 1.7 Hyman's performance monitoring report is attached at **Appendix A**.

2. Fund Size

- 2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31st December 2007 was **£371.45m**. 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 revised fund value of £372.84m at the 30th September 2007; a decrease of (£1.39m). The decrease in the fund value is attributable to fund performance, resulting in a decrease of (£2.16m) and an increase in internal cash of £.76m. The internal cash level totals £5.1m, of which an analysis follows in this report. The Quarter 4 performance is also outlined in this report.



Source: WM Company (Performance Measurers)

- 2.2 An analysis of the internally managed cash balance of £5.1m (as at 3 January 08) follows:

<u>CASH ANALYSIS</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u> <u>(Revised)</u>	<u>2007/08</u>
	£000's	£000's	£000's	£000's
Balance B/F	115	-792	-3052	-3706
Benefits Paid	17926	19286	20886	17368
Management costs	825	1435	1592	1408
Net Transfer Values	1979	962	-1341	-2103
Employee/Employer Contributions	-19195	-21777	-23536	-17943
Cash from/to Managers	-2462	-2114	1945	0
Internal Interest	20	-52	-200	-167
Movement in Year	-907	-2260	-654	-1437
Balance C/F	-792	-3052	-3706	-5143

- 2.3 This analysis also demonstrated that the returns on internally managed cash, currently averaging 5.8% over the year was, in the main, greater than the Fund Manager returns. Whilst we await the outcome of the ongoing investment strategy review and bearing in mind the current market volatility, it is suggested that it would be prudent to continue to hold the cash internally at this time.

3. Performance Figures against Benchmarks

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

	Quarter to 31.12.07	12 Months to 31.12.07	3 Years to 31.12.07	5 years to 31.12.07
Fund	-1.0%	2.0%	10.0%	11.4%
Benchmark return	1.0%	4.4%	10.2%	11.7%
*Difference in return	-2.0%	-2.2%	-0.1%	-0.3%

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 + 15% per annum) is shown below:

	Quarter to 31.12.07	12 Months to 31.12.07	3 Years to 31.12.07	5 years to 31.12.07
Fund	-1.0%	2.0%	10.0%	11.4%
Benchmark return	6.3%	5.7%	8.4%	10.7%
*Difference in return	-6.8%	-3.5%	1.4%	0.7%

Source: WM Company

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

As the fund has only been under its new arrangements since February 2005, historical performance greater than one year is no reflection of the new strategy.

- 3.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 31st DECEMBER 2007)

	Standard Life	Alliance Bernstein	Royal London	Western Asset*	UBS
Return (performance)	(3.3)	(1.6)	3.5	4.6	(8.3)
Benchmark	(0.3)	.5	4.3	5.6	(8.2)
**Over/(Under) Performance vs Benchmark	(3.0)	(2.1)	(0.8)	(1.0)	(0.1)
TARGET	.2	1.1	4.5	6.4	n/a
** Over/(Under) Performance vs Target	(3.5)	(2.7)	(0.9)	(1.7)	n/a

Source: WM Company, Fund Managers and Hymans

* Performance is gross to reflect the benchmark and target

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

	Standard Life	Alliance Bernstein	Royal London	Western Asset*	UBS
Return (performance)	2.0	5.9	1.8	1.2	(6.0)
Benchmark	5.3	9.8	3.0	2.7	(5.6)
**Over/(Under) Performance vs Benchmark	(3.1)	(3.9)	(1.2)	(1.5)	(0.4)
TARGET	7.3	12.3	3.75	5.7	n/a
** Over/(Under) Performance vs Target	(5.0)	(6.4)	(1.9)	(4.5)	n/a

Source: WM Company, Fund Managers and Hymans

* Performance is gross to reflect the benchmark and target

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

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

- a) Representatives from Standard Life are to make a presentation at this Committee, therefore a brief overview of the quarter 4 performance follows:
- b) The value of their portfolio has decreased by £3.74m since the third quarter but since inception has risen by £42.38m.
- c) Standard Life underperformed the benchmark in the quarter by -3.0% (net of fees) and underperformed the target in the quarter by -3.5% (net of fees). Since inception they are slightly above the benchmark by .5% but behind the target by -1.5%.
- d) The markets have seen more volatility than has been seen for some time on the back of credit concerns and volatility continued in the fourth quarter.
- e) The global financial sector remains the main source of investor concerns.
- f) Positive contributions came from being overweight in Mining, with strong gains from Rio Tinto, Xstrata and Highland Gold Mining. However these gains were offset by the negative contribution in banking stocks such as RBS and HBOS.

4.2. Global Equities (Alliance Bernstein)

- a) In accordance with agreed procedures officers met with representatives from Alliance Bernstein on the 7th February 2008 at which a review of the quarter 4 (October to December 07) performance was discussed.
- b) The Market Value of their portfolio decreased by £.93m since the third quarter but since inception has risen by £27.8m.
- c) In Quarter 4 Alliance Bernstein underperformed the benchmark by -2.1% (net of fees) and underperformed the target by -2.7% (net of fees). Since inception they are 1.1% above the benchmark but -1.4% below the target.
- d) Alliance Bernstein's growth team underperformed compared to the growth index and as did their value team. Weak performance by the Value Holdings dragged down the blend's return.
- e) Financials was the biggest detractor of performance and the main contributors coming from stock in mining, coal and oil.

- f) Concerns were raised about retaining their position in financials. Alliance Bernstein believes that their financial selections are well placed and believe that this tactic will deliver positive results.
- g) Active currency management delivered a negative contribution over the quarter when compared to the benchmark index, reflecting the volatility in Sterling, U.S Dollars and the Swiss Franc.
- h) Growth team continues to believe that they will see significant opportunity while the value team remain cautious.
- i) There were no governance or whistle blowing issues to report.

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

- a) Representatives from Royal London are to make a presentation at this Committee, therefore a brief overview of the quarter 4 performance follows:
- b) The value of their portfolio has increased by £3.15m since September 2007.
- c) Royal London underperformed the benchmark for the quarter by -0.8% (80 basis points) and underperformed against the target for the quarter by -.99% (99 basis points).
- d) Asset allocation of the fund during the quarter was 54.3% Sterling Credit Bonds (4.3% overweight), 29.7% UK Index Linked, 15.8% UK Conventional Government Bonds and 0.2% cash.
- e) The portfolio maintained an overweight position in Sterling credit bonds which detracted from performance.
- f) Sterling credit bonds underperformed significantly in the quarter, this was mainly in November which was the worst month for credit, relative to government bonds, for ten years.
- g) Returns achieved by U.K index linked bonds exceeded conventional government bonds.

4.4. Global High Yield Bonds (Westerns)

- a) In accordance with agreed procedures officers met with representatives from Westerns on the 7th February 2007 at which a review of the quarter 4 (October to December 07) performance was discussed.
- b) The value of Westerns portfolio rose by £1.33m since September 07.

- c) Westerns underperformed the benchmark by -1.0% and the target by -1.75% in quarter 4. Since inception Westerns have underperformed the benchmark by -0.4% and underperformed the target by -3.4%.
- d) It was again raised with Westerns that their report does little to explain the portfolio's performance in Q4. Some presentational changes were made since the last presentation but Westerns have been requested, for future reports, to include the performance attributes expressed as percentages and that these equal to the overall performance (so that it was clearer where the attributes were coming from). Westerns were requested to run through the performance attributions as follows:
- e) Main contributors to performances:
- Held a modest position in U.S mortgage backed securities which proved beneficial as mortgages outperformed cash. Westerns confirmed that their U.S exposure is to high quality mortgages and a small exposure to sub-prime.
 - Being overweight in duration with a bias towards shorter and intermediate U.S. Bonds. This added to performance as interest rates fell and bond prices rose - particularly in the U.S.
 - Held emerging market debt in both U.S dollars and local currencies. Strong gains in U.S dollars, Turkey and India but was offset by weakness in Brazil.
- f) Main detractors from performance:
- Underweight in long UK Gilts was negative as UK gilts performed well over the period.
 - Maintained a modest exposure to peripheral markets but this detracted from performance as these were perceived as more risky areas at a time when investors were increasingly nervous.
 - Added to investment grade securities with a focus on European bank capital. The risk premium for corporate debt rose and these securities underperformed more secure government bonds. This problem was compounded by focusing on bank capital, as this was the worst performing area.
 - Maintained a modest position in the high yield sector which performed poorly.
- g) It was acknowledged that the target is a stretching one and Westerns were asked if they felt confident that there were opportunities to exploit the markets. Westerns were confident that opportunities existed in High Yield. Westerns believed that opportunities existed in a South African retailer and a packaging company in Europe and cable companies in the UK.

- h) Concerns were also raised with Westerns that whilst the portfolio has an average rating of A against the benchmark of AAA that they were taking greater risks to reach the target. Westerns strategy is the long term and Westerns believe that over a market cycle they will meet the target.
- i) Westerns have advised that the revised prospectus has now been agreed by the regulator and will become effective from end of August 07. As the revised prospectus includes a new share class for the management fee, the issue regarding changes to a performance related fee could now go ahead. This issue is currently being reviewed by our investment advisors and an update will be provided when the investment strategy review has been completed.
- j) There was no governance or whistle blowing issues reported.

4.5. Property (UBS)

- a) Value of the Triton Fund decreased by £1.97m since September 07 but since inception has increased by £4,570m.
- b) Triton fund returned an underperformance of -0.10% in the fourth quarter.
- c) This performance is consistent with a general reaction to recent global events and the quarterly trend in the U.K property market. Valuations continue to be driven by market sentiment.
- d) There were no purchases during quarter 4. Two small sales at Milton Gate and Kingsway. UBS also completed letting of several floors of Bridgewater House in Manchester and lettings at the Walworth Industrial Estate in Andover. Also let units at Kenwood Park in Havant and channon's Hill Retail park in Bristol.
- e) UBS will be selling a number of assets over the next four months to meet redemption requests, particularly focusing on properties with poor rental growth prospects, and where asset management initiatives have been realised. UBS believe this will provide an opportunity to restructure the fund.
- f) UBS have written to clients to inform them of the recent and unexpected changes to the Stamp Duty Land Tax (SDLT) legislation. This legislation was introduced on the 19th July 07 to counter avoidance of SDLT involving partnerships and in short, means that redemptions and subscriptions are now subject to a 4% SDLT charge. This tax is in addition to the SDLT due on the purchase of properties and now means that the Triton partnership is subject to a double SDLT charge.

UBS together with other interested funds made formal representations to the government about the effects of the legislation with a view to restore the original SDLT treatment. UBS are working with their advisors

to explore ways of alleviating the implications of the tax changes and it may be possible that changes to the fund structure may be needed.

In the meantime, as a prudent precaution to ensure all investors are treated fairly, they exercised their discretion to suspend subscriptions and redemptions.

UPDATE: Draft SDLT legislation has recently been produced by HM Treasury for consultation. It is intended that this will be incorporated within the Finance Act 2008 due in July 2008. Initial review of the draft legislation appears that it will work to substantially restore the tax position to that which existed before these tax changes were made.

In the meantime UBS have resumed trading with a retention in place to cover the possibility that the new legislation is not implemented.

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

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which is available for scrutiny in the Members Lounge.
2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
3. Receive quarterly information from the Investment Managers, detailing new Investments made.
 - Points 1 and 3 are contained in the Managers' reports.
 - With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.
- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

Standard Life and Royal London

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

Financial Implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Legal Implications and risks:

With respect to the assets managed by Westerns on a 'pooled fund' basis, once the final version of the revised prospectus for the pooled fund has been approved it will need to be considered on behalf of the Council and account taken of any legal implications for the Council. Additionally, any agreed change in Western's fees will be signed off in a manner which ensures that the fees variation has binding effect. Otherwise, no specific legal implications arise from the matters set out within this report.

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

Standard Life Quarterly report to 31st December 2007
Alliance Bernstein Quarterly report to 31st December 2007
Royal London Quarterly report to 31st December 2007
Western Asset Quarterly report to 31st December 2007
UBS Quarterly report to 31st December 2007
The WM Company Performance Review Periods to 31st December 2007
Hyman's Monitoring Report to 31st December 2007

