

PENSIONS COMMITTEE

AGENDA

7.30pm

Tuesday,
20 September 2007

Havering Town Hall,
Main Road, Romford

Members 6: Quorum 3

COUNCILLORS:

Conservative Group

(4)

Melvin Wallace - (Chairman)

Roger Ramsey - (V.Chairman)

Robby Misir

Vacant

Residents' Group

(2)

Clarence Barrett

Linda van den Hende

Trade Union observers with no Voting Rights

(2)

Brian Long (Unison)

Michael Parker (TGWU)

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 HELD 13 MARCH 2007

To approve as a correct record the minutes of the meeting held on 26 June 2007 and to authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDING 30 JUNE 2007– Report attached**6. STATEMENT OF ACCOUNTS - YEAR ENDED 31 MARCH 2007 – Report attached**

Cheryl Coppel
Chief Executive

Pensions Committee, 20 September 2007

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

26 June 2007 (7.30pm – 9.25pm)

Present:

COUNCILLORS:

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

Residents Group Clarence Barrett

Apologies for absence were received from Councillor Linda van den Hende

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

1. MINUTES

The minutes of the meeting held on 13 March 2007 were agreed as a correct record and signed by the Chairman.

2. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDING 31 MARCH 2007

The Committee received a report which provided an overview of the performance of the Fund's investments for the quarter ending 31 March 2007.

The report provided an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 March 2007. The performance information was 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 31 March 2007 was **1.2%**. This represented an out-performance of **0.3%** against the combined tactical benchmark and an out-performance of **2.9%** against the strategic benchmark.

The overall net return of the Fund's investments for the year to 31 March 2007 was **6.3%**. This represented an out-performance of **0.8%** against the annual tactical combined benchmark and an out-performance of **4.4%** against the annual strategic benchmark.

The Committee was advised by the fund's Investment Advisor that a volatility that had re-entered the markets during Q1 and that "mixed messages" had been transmitted by the different markets worldwide. Sub-prime uncertainty in the US financial markets made this a speculative area, but that long-term bonds were under-performing. and the fund advisor was not overly confident that recovery in this area would reach bench-marks as these were particularly stretching, especially in the light of current market activity

Global Equities (Alliance Bernstein)

Representatives from Alliance Bernstein made a presentation to the Committee outlining performance over the last quarter. The market value of the fund at 31 March 2007 was £77.9m and the Committee was advised that although global equity markets were volatile the quarter had finished with modest gains.

The portfolio underperformed the market (benchmark), due primarily to the current stock selection in the financial sector and was split between 'Growth' and 'Value' stock. The growth element of the portfolio outperformed the value element because this element was the area that had greater exposure to the financial sector.

Positive contributions were from holdings in the materials, consumer staples and healthcare sectors but were offset by a wide array of smaller detractors.

Global High Yield Bonds (Westerns)

Representatives from Westerns made a presentation to the Committee outlining performance over the last quarter.

Members were informed that the main contributors and detractors to performance included elements such as US long-dated bonds outperforming U.K gilts, whilst High Yield and emerging market debt performed well.

Exposure to the front end of the UK yield curve detracted from returns as yields rose following the interest rate rise of .25% in January and Eurozone bonds detracted from performance as yields rose and the curve steepened.

Members agreed this area would need to be kept under review to assess if bench-marks were achieved over a sustained period.

The Committee **resolved** to:

1. Note Hymans performance monitoring report and presentation.
2. Note the summary of the performance of the Pension Fund
3. Note the quarterly reports provided by each investment manager.

4. Note the Corporate Governance issues that each fund manager had detailed.

3 REPORT ON THE WORK OF THE INVESTMENT COMMITTEE

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 31 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.

PERFORMANCE OF THE FUND FOR THE FINANCIAL YEAR 2006/07

For 2006/07 the investment strategy of the Fund Managers obliged them to report quarterly on their performance.

Each manager is measured against a specific benchmark or index best befitting their mandates and to which they have agreed. The WM benchmark continues however to be used to compare the Havering Fund overall with its peers. The performance of the fund is also measured against a tactical and a strategic benchmark.

The tactical benchmark is the combination of all the individual benchmarks for each manager. For the year to 31 March 2007, the Fund return was **6.3%**. This represents an out-performance of **0.8%** against the tactical benchmark...

The strategic benchmark for the overall fund is a liability benchmark of UK Over 15 year Gilts + 3.6% gross (3% net) per annum. The out-performance against the strategic benchmark was **4.4%**.

PENSION COMMITTEE DATES/TRAINING AND DEVELOPMENT

Members also noted the dates for the Committee for the 2007/08 period and were reminded of the recent (2006) training programme.

The Committee **resolved** to:

Approve the report and agreed for its circulation to all Council Members.

4 **PERFORMANCE OF THE PENSION ADMINISTRATION SERVICE 2006/07**

The report detailed the work and performance of the Pensions Administration Service during the financial year 2006/2007. At the start of the 2006/07 financial year there were 12,584 members of Havering's Pension Fund with 2,580 Deferred Members and 4,391 Pensioners.

Local performance indicators showed that the impact of long term sickness absence and two new members of staff have resulted in an overall downturn in performance measures.

In addition, Members learned that the closer working relationship with the London Borough of Redbridge had continued to grow and that Havering continued to benefit from the secondment of a senior pensions officer from Redbridge. The Pension section had also been heavily involved in various outsourcing \ ASD projects that the Council had been working on during the current year.

Havering had completed the first stage of the London Centre of Excellence project and had recruited additional members of staff during 2006/07 and had responded to new legislation from central government.

The Committee was also reminded that a number of high profile court cases relating to part-timers historic rights to be members of the Pension Fund had taken place recently.

The Committee **resolved** to:

Note the work and performance of the Pensions Administration Service during 2006/2007.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	20 SEPTEMBER 2007	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2007

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 June 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 30 June 2007 was 1.7%. This represents an outperformance of **0.7%** against the combined tactical benchmark and an outperformance of **6.0%** against the strategic benchmark.

The overall net return of the Fund's investments for the year to 30 June 2007 was 11.2%. This represents an outperformance of **2.0%** against the annual tactical combined benchmark and an out-performance **11.6%** 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.
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 summary review from WM Performance Services (paragraph 3.4 refers).
8. Note the issues identified in preparation for the forthcoming Investment Strategy review (paragraph 3.5 refers).
9. Note the update from the funds Property Manager (UBS) regarding the implications of the Stamp Duty Land Tax Changes (paragraph 4.5c refers).

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:

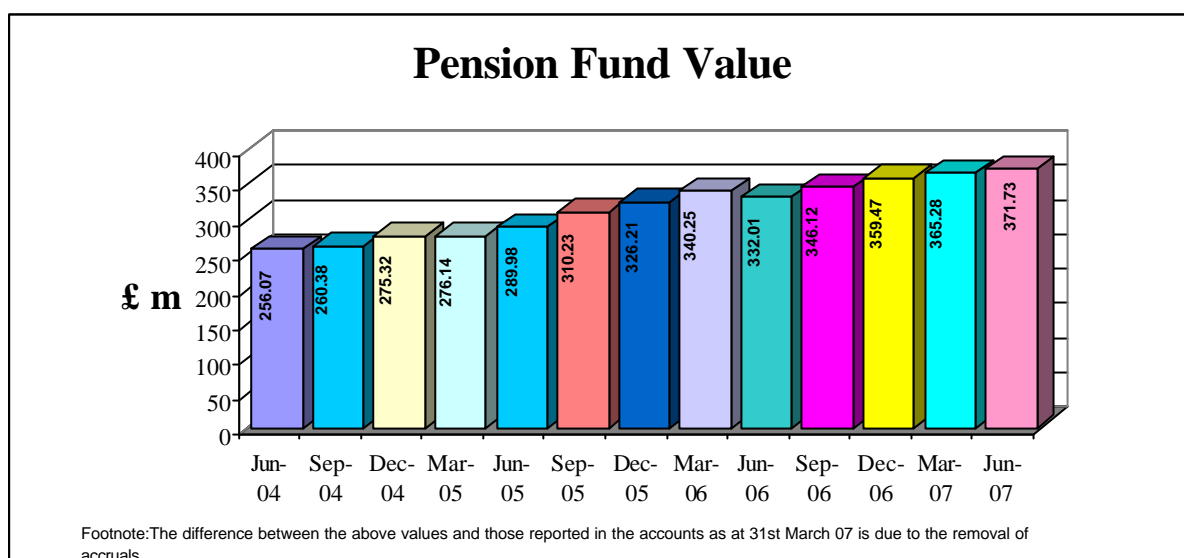
- UK Equities Manager (Standard Life), and
- Investment Grade Bonds Manager (Royal London).

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 30 June 2007 was £371.73m. 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 value of £365.28m at the 31 March 2007; an increase of £6.45m (1.77%). The

£6.45m is made up of internal cash levels totalling £3.53m, of which an analysis follows in this report and the remaining £2.92m is attributable to the performance of the fund during quarter 2. The Quarter 2 performance is outlined in this report.



Source: WM Company (Performance Measurers)

- 2.2 An analysis of the internally managed cash balance of £3.5m (as at 5 July 07) 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	5896
Management costs	825	1435	1592	422
Net Transfer Values	1979	962	-1341	-239
Employee/Employer Contributions	-19195	-21777	-23536	-5862
Cash from/to Managers	-2462	-2114	1945	0
Internal Interest	20	-52	-200	-45
Movement in Year	-907	-2260	-654	172
Balance C/F	-792	-3052	-3706	-3534

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 30.06.07	12 Months to 30.06.07	3 Years to 30.06.07	5 years to 30.06.07
Fund	1.7%	11.2%	13.5%	9.2%
Benchmark return	1.0%	9.1%	12.3%	8.8%
*Difference in return	0.7%	2.0%	1.0%	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 30.06.07	12 Months to 30.06.07	3 Years to 30.06.07	5 years to 30.06.07
Fund	1.7%	11.2%	13.5%	9.2%
Benchmark return	-4.0%	-0.3%	7.3%	5.9%
*Difference in return	6.0%	11.6%	5.8%	3.1%

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 30 JUNE 2007)

	Standard Life	Alliance Bernstein	Royal London	Western Asset*	UBS
Return (performance)	4.7	5.5	(3.2)	(5.7)	2.3
Benchmark	4.5	4.8	(3.4)	(4.8)	2.1
**Over/(Under) Performance vs Benchmark	0.2	0.7	0.20	(0.8)	0.2
TARGET	5.0	5.4	(3.2)	(4.1)	n/a
** Over/(Under) Performance vs Target	(0.3)	0.0	0.01	(1.6)	n/a

Source: WM Company, Fund Managers and Hymans

* Performance is gross to reflect the benchmark and target

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

ANNUAL	Standard Life	Alliance Bernstein	Royal London	Western Asset*	UBS
Return (performance)	21.4	15.5	(0.4)	(1.4)	11.9
Benchmark	18.4	15.5	(1.0)	(3.3)	13.1
**Over/(Under) Performance vs Benchmark	2.5	0.0	0.6	1.9	(1.2)
TARGET	20.4	17.9	(0.2)	(0.3)	n/a
** Over/(Under) Performance vs Target	0.5	(2.4)	(0.2)	(1.1)	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.

3.4 WM Performance Services

3.4.1 Officers met with WM Performance Services – the Funds performance measurers on 6 August 2007, at which an overview of the Funds performance was delivered for the period to end of March 07. A summary of that review follows:

- a) WM collate data from a total of 88 local authorities to produce a WM universe benchmark (WM average).
- b) The review outlined the funds performance against its tactical/strategic benchmark and the performance relative to the WM universe as follows:

	12 months %	3 years %
WM Universe (Average)	7.0	14.3
LBH Tactical benchmark	5.5	12.3
LBH Strategic benchmark	1.9	9.1
LBH fund gross performance	6.6	13.5
LBH Ranking	60	74

Although the fund outperformed the benchmarks this table shows that the fund did not do as well against the average of the other local authorities (WM average).

- c) When comparing against the WM average the performance can be attributed to the effects of:
- Stock Selection – this had a positive impact on the fund mainly due to the selection in UK Equities. In addition to UK equities, overseas equities had a positive impact over the 3 year period.
 - Asset Allocation – this had a negative impact on the fund due to an overweight position in UK Bonds.

3.5 Investment Strategy Review

When members set the Strategy in 2004, a prudent approach was adopted given (i) the significant changes already being made by moving from a single manager to five managers; (ii) the desire for stability.

The review of the investment strategy is due to take place after the March 2007 Actuarial revaluation. In preparation of the forthcoming strategy review members may wish to consider the following issues in the coming months:

- 3.5.1 The WM review, as summarised in paragraph 3.4, identified the need to consider reviewing:
- Asset Allocation - In comparison with the WM Average the latest year data showed the fund is currently markedly overweight in UK Bonds. Long term this strategy could be expected to increase costs (as equities outperform bonds) although volatility will be reduced.
 - Benchmarks – within overseas equities the fund has double the average exposure to US equities. This is largely driven by the use of the benchmark (MSCI All World Index).
- 3.5.2 A risk analysis will be prepared for members based on the performance of the existing fund managers.
- 3.5.3 The outcome of the Fund's Investment Advisors review of the existing fee arrangements.

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 2 performance follows:
- b) UK Equities - Interest rate sensitive stocks came under pressure during the quarter and Standard Life's underweight position in interest rate sensitive sectors such as property and utilities was positive for

performance as bond yields came under pressure. Exposure to mining and oil stocks was positive, supported by a high oil price and buoyant commodity prices. Holdings in airline companies were negatively impacted by weak passenger numbers and price pressures from low-cost competitors.

- c) Small companies' fund - This part of the portfolio continued to outperform its benchmark despite a challenging backdrop for smaller companies. Domino's pizza was one of the strongest performers after announcing strong trading. Performance was held back slightly by SCS upholstery and Carter & Cater, in both cases due to profits warnings. Not owning Kensington (specialist mortgage lender) was positive, as it reported poor trading and saw bid talks collapse.

4.2. Global Equities (Alliance Bernstein)

- a) In accordance with agreed procedures officers met with representatives from Alliance Bernstein on the 6th August 2007 at which a review of the quarter 2 (April to June 07) performance was discussed.
- b) The portfolio is split 50/50 between growth and value stocks. As at Quarter 2 this split is 52.5% Value and 47.5% Growth.
- c) Growth Stock – Stock that is expected to generate above average revenue and earnings growth relative to the market.
- d) Value Stock – Stock that is under priced by the market relative to assets, sales, dividend income or earnings.
- e) Alliance Bernstein growth team underperformed compared to the growth index and their value team outperformed the value index. Healthcare was the largest detractor for growth sleeve but neutral for value sleeve. Stock selection was strong within Financials.
- f) Growth and value stock performance may vary between quarters – shows why it is favourable to have a blend.
- g) Concerns were raised whether performance in Q3 would be hit by the fall out from US sub-prime lending market in the same way it was in Q1. Alliance Bernstein has stated that their financial selections are well placed and are doing ok so far.
- h) Concerns were raised as to whether any other aspects of the recent volatility in the markets would have significant impact on performance. Alliance Bernstein believe that there will jitters for a while with some decline overall but this is also seen as an opportunity to gain.
- i) Alliance Bernstein when asked to comment on their recent decision to close some of their UK products to new clients explained that this should be positive to the portfolio as they will have better resources for global clients. There are no plans to close Global growth and value products.

- j) 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 2 performance follows:
- b) The asset allocation is split as follows:
 - i. 56.8% Sterling Credit bonds (Corporate bonds)
 - ii. 28.5% UK Index Linked Bonds
 - iii. 14.5% UK Government Bonds
 - iv. 0.1% Cash
- c) Index linked Bonds gave the least negative return whilst sterling credit bonds outperformed conventional UK government bonds.
- d) Over the quarter the negative absolute return reflected the rise in UK long term interest rates whilst the relative outperformance was due to stock selection.
- e) Positive effect of stock selection was attributed to being overweight in lower investment grade bonds (A, BBB and unrated securities)

4.4. Global High Yield Bonds (Westerns)

- a) In accordance with agreed procedures officers met with representatives from Western Assets on the 6th August 2007 at which a review of the quarter 2 (April to June 07) performance was discussed.
- b) Westerns underperformed the benchmark by -.85% for quarter 2. Since inception Westerns have outperformed the benchmark by 0.3% but underperformed the target by -2.97%.
- c) It was raised with Westerns that their report does little to explain the portfolio's performance in Q2. They were requested, for future reports, to include more focus on performance and less on what they think will happen. Westerns were requested to run through the performance attributions as follows:
- d) Main contributors to performances:
 - i. Sterling based accounts benefited from being underweight long U.K gilts.
 - ii. Held an underweight exposure to U.S dollar-denominated emerging debt. This added to the performance as U.S dollar denominated debt declined.
- e) Main detractors from performance:

- i. Tactical duration management detracted from performance as U.S yields rose more than expected.
 - ii. Non exposure to sterling currency.
 - iii. U.S mortgage exposure.
 - iv. Being overweight in Mortgage backed securities proved to be a drag on performance as spreads widened and volatility rose.
 - v. The High Yield sector lagged cash as spreads widened sharply late in the quarter.
 - vi. Global corporate – Although lower quality sectors generally outperformed, emphasis on the finance sector suffered from wider spreads.
 - vii. Held an exposure to U.S dollar dominated emerging markets debt. Most local currency emerging markets performed strongly in the quarter but U.S dollar detracted from performance.
- f) Westerns were asked what proportion of added performance they would expect to come from their strategy of using swaps to get duration. Westerns have stated that the proportion is approx 20% and the main drivers coming from High Yields, mortgages, emerging markets, corporate bonds and currency.
- g) Westerns were asked to explain the difference between global corporate bonds (negative performance in Q2) and global high yield debt (positive performance in Q2). They explained that global corporate bonds have more correlation to U.S Treasuries which were more sensitive to interest rates and global high yield has less correlation to U.S treasuries which is why this was a positive contributor.
- h) Mortgage backed securities accounted for over a quarter of the portfolio at the end of Q2, so they were asked if this exposure is sufficiently far removed from the ripple effect of the U.S sub-prime mortgage lending to which they stated that their exposure is with AAA rating companies.
- i) Westerns were asked what the performance position was for July. Westerns stated that although not confirmed it is about 1% below benchmark. They stated that July was a very volatile month and predict more volatility in forthcoming months. They are hopeful that a re-price in the market following July will give rise to opportunities.
- j) 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 reaching the target. Westerns strategy is the long term and Westerns believe that over a market cycle (3-4 years) they will meet the target.
- k) Westerns have advised that the revised prospectus has now been agreed by the regulator and will become effective from end of August. 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 review of fees has been completed.

- l) There was no governance or whistle blowing issues reported.

4.5. Property (UBS)

- a) The fund has outperformed in this second quarter. This brought the annual total return to under perform the benchmark by -1.2%.
- b) performance attributions as follows:
 - i. The sale of majority of assets in Manton Lane represented excellent value as the area is not an established office location. Also sold unit 285 at Ampress Park as a result of strong demand from owner occupiers.
 - ii. Refurbishment of the first floor of Milton Gate will complete in July 07 with the rest of the building expected to complete in September. There is currently strong interest from the market.
 - iii. Refurbishment is also due to be completed of Kingsway shopping Centre in Newport before Christmas 07.
 - iv. The top 2 floors at Vantage West in Brentford have now been let.
 - v. At pavilions shopping centre in Birmingham several lettings to prominent retailers have been completed. Continuing strategy of refurbishment and letting and expect to complete further interior enhancements by October 07.
 - vi. Over the last quarter, letting activity within Triton has significantly increased. The fund has previously carried a higher than average vacancy rate in order to take advantage of long term risk adjusted returns offered by vacant properties.
- c) 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 are continuing to make 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 have exercised their discretion to suspend subscriptions and redemptions.

- d) 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 30th June 2007
Alliance Bernstein Quarterly report to 30th June 2007
Royal London Quarterly report to 30th June 2007
Western Asset Quarterly report to 30th June 2007
UBS Quarterly report to 30th June 2007
The WM Company Performance Review Periods to 30th June 2007
Hymans Monitoring Report to 30th June 2007

MEETING	DATE	ITEM
PENSION COMMITTEE	20 SEPTEMBER 2007	6

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND STATEMENT OF ACCOUNTS – YEAR ENDED 31 MARCH 2007

SUMMARY

This report provides Members with an extract of the Council's Statement of Accounts for the year to 31 March 2007 showing the accounts of the Havering Pension Fund as at that date.

RECOMMENDATION

That the Committee note the Havering Pension Fund Accounts as at 31 March 2007.

REPORT DETAIL

1. Background

- 1.1 The Council's Draft Statement of Accounts for 2006/07 was presented to the Audit Committee on 26 June 2007. The part of the statement which covers the Havering Pension Fund Accounts has been extracted, and attached to this report.
- 1.2. The Pension Fund Accounts is at present subject to audit by the Audit Commission as part of the overall audit of the Council's accounts.
- 1.3 Key items to note from the statement are:
 - The Net Assets of the Fund have increased to £366m for 2006/07 from £341m in 2005/06, a net increase of £25m. This is a reflection of the return of 6.3% on the Fund's investments for the year. The main

contributors to the increase in Net Assets are Investment Income of £10m and £12.5m from Change in Market Value.

- The Fund has continued to outperform the benchmark and has been supported by the growth in UK Equities. The Fund outperformed the strategic benchmark by 4.4% for the year to 31 March 2007.
- 1.4 The Pension Fund extract of the accounts for 2006/07 are attached (Appendix A) and are at present unaudited. A copy will be made available to Members once the audit is completed and the accounts signed off.
- 1.5 The new LGPS (Administration) Regulations 2007 proposed to commence from 1 April 2008 contains a requirement to publish a 'pension fund annual report' which among other items should include, in addition to the accounts, the governance policy statement, funding strategy statement, statement of investing principles and the communications policy. In advance of this new requirement the 2006/07 pension fund statement of accounts will be published on the council's website together with the documents mentioned above.

Financial Implications and risks

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

Equalities Implications

None arise from this report

Legal Implications and risks

None other than as set out in the body of the report

HR Implications and risks

None arise from this report

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CHERYL COPPELL
Chief Executive

Background Papers

Working papers held within the Corporate Finance Section.
Draft Statement of Accounts 2006/07.

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2006-2007

Pension Fund

Introduction

The Council's Pension Fund is operated under the Local Government Pension Scheme Regulations 2006; the Fund provides benefits for employees (excluding teachers) which include retirement pensions, spouse and children's pensions, death grants and other lump sum payments. During the current financial year civil partners were recognised as having the same benefit rights as member's spouses.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts.

Membership

The membership of the Pension Fund is as follows:

	As at 31 March 2007	As at 31 March 2006
Contributors	5,761	5,613
Deferred pensioners	2,762	2,580
Pensioners and Dependants	4,466	4,300

Employers in the Fund

The other employers in the Pension Fund are as follows:

Scheduled bodies

Havering College of Further Education
Havering Sixth Form College
Homes in Havering

Admitted Bodies

Havering Citizens Advice Bureau
Morrisons (formerly AWG)
May Gurney
Catering for Education
Sports & Leisure Management Ltd
KGB Cleaners

Abbs Cross School, Coopers Company & Coburn School, The Frances Bardsley School for girls and Sacred Heart of Mary Girls School ceased to be Scheduled Bodies to the fund due to an amendment in The Local Government Pension Scheme Regulations 1997 (As Amended) regarding change of bodies within Schedule 2.

Investment Arrangements

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pension Committee. The Pension Committee also oversees the Fund's investment arrangements and each year publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

The Group Director Finance and Commercial supports the Pension's Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pension's administration.

Havering restructured the investment management of the fund in February 2005 and moved from a position of having a sole external manager to having five new managers with specific investment mandates. The five fund managers and the market value of assets under their management at the 31st March 2007 were as follows:

Manager	Mandate	Value	
		£,000	%
Standard Life	UK Equities	124,481	34.59
Alliance Bernstein	Global Equities	77,992	21.67
Royal London	Investment Grade Bonds	93,467	25.98
Westerns	Global Bonds	30,037	8.35
UBS	Property	33,103	9.20
	Sub total	359,080	99.79
	Other	758	0.21
	Total Fund	359,838	100.00

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk and to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

Havering uses the services of The WM Company to provide comparative statistics on the performance of this Fund. The performance of the fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 3.6% gross (3% net) p.a.

In 2006/07, the overall return on the Fund's investments was 6.3% (2005/06 23.4%) This represented an outperformance of 0.8% against the tactical benchmark (2005/06 3.1%) and an outperformance of 4.4% against the strategic benchmark (2005/06 9.7%).

The Fund has continued to outperform the benchmark. This has been supported by the growth in UK Equities. The longer term performance is as follows:

	3 years to 31.3.07	5 years to 31.3.07
Fund	13.3%	7.2%
Benchmark return	12.3%	7.1%
Difference	1.0%	0.1%

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2006-2007

Pension Fund Account for the year ended 31st March 2007

2005/06 £'000		Notes	2006/07 £'000
	Contributions and benefits		
21,780	Contributions receivable	3	23,666
3,504	Transfers in	4	3,574
25,284			27,240
(19,235)	Benefits payable	5	(21,028)
(4,496)	Leavers	6	(2,246)
(463)	Administration	7	(534)
(24,194)			(23,808)
1,090	Net additions (withdrawals) from dealings with members		3,432
	Returns on Investments		
9,624	Investment income	9	10,479
55,336	Change in market value of investments	8	12,596
(1,181)	Investment management expenses	10	(1,195)
63,779	Net returns on investments		21,880
64,869	Net increase/ (decrease) in the Fund during the year		25,312
275,967	Net assets of the scheme at start of year		340,836
340,836	Net assets of the scheme at end of year		366,148

Net Asset Statement			
31 March 2006 £'000		Note	31 March 2007 £'000
	Investments	11	
182,515	Equities		197,966
61,055	Fixed interest securities		66,966
27,381	Index-linked securities		22,383
1,034	Mortgaged Backed Securities		2,745
62,316	Unit trusts		65,549
-	Other		915
	Cash instruments		
765	Short-term Securities		15
5,880	Cash & deposits		7,005
340,946			363,544
(110)	Net current assets	12	2,604
340,836	Net assets of the scheme at end of year		366,148

I certify that the Pension Fund Account and Net Assets Statements fairly present the income and expenditure in 2006/07 and the Pensions Fund's financial position as at 31st March 2007.

Rita Greenwood, CPFA
Group Director Finance and Commercial
Date June 2007

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2006-2007

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and follows the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The Financial Statements summarise the transactions of the scheme and the net assets of the Fund. The Financial Statements do not take account of liabilities to pay pensions and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with on page 45 and these Financial Statements should be read in conjunction with them.

2. Accounting Policies

The Financial Statements have been prepared on an accruals basis but transfer values are included on a cash basis in accordance with the SORP.

Investments are stated at market value with any surplus or deficit on valuation being debited/credited to the Fund account. Shares recorded on the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the last traded price. Other investments are valued at their mid-point market value on the last working day of the financial year.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

A proportion of relevant officers' salary costs, including related oncosts, has been charged to the Fund.

3. Contributions Receivable

2006/07	Employees £'000	Employers £'000	Total £'000
Havering	**4,677	15,510	20,187
Special Contribution		*1,157	1,157
Scheduled Bodies	471	1,271	1,742
Admitted Bodies	136	444	580
	5,284	18,382	23,666

2005/06	Employees £'000	Employers £'000	Total £'000
Havering	**4,439	13,975	18,414
Special Contribution		*1,442	1,442
Scheduled Bodies	385	958	1,343
Admitted Bodies	108	473	581
	4,932	16,848	21,780

*The Special Contribution of £1.157m is in respect of early retirements and in anticipation of increases in the employer's rate.

**This includes £120,000 of additional contributions by employees to purchase added years

Note: Some employees made additional voluntary contributions (AVC's) of £87,375 excluded from the statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential, Nationwide and Standard Life. The amounts forwarded during 2006/07 were £76,399 to the Prudential, £5,280 to the Nationwide and £5,695 to Standard Life.

4. Transfers In

	2006/07 £'000	2005/06 £'000
Individual transfers from other schemes	3,574	3,504

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2006-2007

5. Benefits Payable

2006/07	Pensions £000	Lump Sums £'000	Total £'000
Havering	17,304	3,349	20,653
Scheduled Bodies	159	155	314
Admitted Bodies	38	23	61
	17,501	3,527	21,028

6. Payments To and On Account of Leavers

	2006/07 £'000	2005/06 £'000
Refunds to members	13	29
Transfers out to other schemes	2,233	4,467
	2,246	4,496

7. Administration

2005/06	Pensions £000	Lump Sums £'000	Total £'000
Havering	16,522	2,291	18,813
Scheduled Bodies	203	37	240
Admitted Bodies	3	179	182
	16,728	2,507	19,235

	2006/07 £'000	2005/06 £'000
Staff Costs	442	401
Fees	56	29
Computer and Other	36	33
	534	463

8. Investments

	Value at 1 April 2006 £'000	Purchases at cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Cash Movement £'000	Value at 31 March 2007 £'000
Equities	182,515	82,669	(78,716)	11,498	0	197,966
Fixed interest Securities	61,055	75,203	(66,464)	(2,828)	0	66,966
Index-linked Securities	27,381	11,708	(16,944)	238	0	22,383
Mortgaged Backed Securities	1,034	2,524	(708)	(105)	0	2,745
Unit trusts	62,316	133	(740)	3,840	0	65,549
Other	0	1060	(98)	(47)	0	915
Cash instruments	765	27,383	(28,133)	0	0	15
Cash deposits	5,880	0	0	0	1,125	7,005
	340,946	200,680	(191,803)	12,596	1,125	363,544

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and due to the transfer of assets during the year.

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2006-2007

9. Investment Income

	2006/07 £'000	2005/06 £'000
Interest		
UK Fixed Income	2,850	2,624
Overseas Fixed Income	1,189	1,238
Cash & Deposits	87	97
Other	200	61
Dividends		
UK Equities	3,833	4,074
Overseas Equities	1,088	929
Pooled Vehicles	1,235	721
Other Income		
Foreign Exchange Profits/(Losses)	110	(170)
Other	(113)	50
Total Income	10,479	9,624

10. Investment Management Expenses

	2006/07 £'000	2005/06 £'000
Management and custody	1,033	969
Advisory fees	41	86
Other	121	126
	1,195	1,181

11. Investments

	2006/07 £'000	2005/06 £'000
Equities		
UK Quoted	128,206	112,690
Overseas	69,612	69,638
Futures	148	187
	197,966	182,515
Fixed Interest Securities		
UK	66,966	61,055
	66,966	61,055
Index-Linked Securities		
UK	22,383	27,381
	22,383	27,381
Mortgaged Backed Securities		
UK	2,745	1,034
	2,745	1,034
Unit Trusts		
UK Quoted	3,008	2,364
UK Unquoted	80	478
UK Property	32,424	28,975
Overseas	30,037	30,499
	65,549	62,316
Cash Instruments		
UK	15	765
	15	765
Other		
Asset class not identified	915	-
	915	-
Cash Deposits		
Managers	3,259	2,817
Havering	3,707	3,052
Futures	39	11
	7,005	5,880
Total Investments	363,544	340,946

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2006-2007

12. Net Current Assets

	2006/07 £'000	2005/06 £'000
Current Assets		
Investment Income	2,509	1,994
Sold Assets	2,087	2,030
Pensions	6	20
Contributions	271	141
VAT/ UK Tax	31	186
	4,904	4,371
Current Liabilities		
Purchased Assets	1,569	4,027
Pensions	302	160
Other Expenses	429	294
	2,300	4,481
Net Current Assets	2,604	(110)

13. Related Party Transactions

There were no transactions with related parties other than those disclosed elsewhere within the accounts. In 2006/07, £0.442m was paid to the Council for administration (£0.401m in 2005/06) and £18.310m (£15.417m in 2005/06) was paid by the Council to the Pension Fund in respect of employer's contributions. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

14. Actuarial Valuation

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the Fund to ensure that present and future commitments can be met.

The rate of employer's contributions paid by the Council in 2006/07 was 20.3% of pensionable pay as determined by the actuarial valuation of the Fund as at the 31st March 2004.

The most recent valuation of the Fund was carried out at the 31st March 2004. The actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions, which have the most significant effect on the results of the valuation, are:

Assumption	Rate
The rate of increase in pensionable Earnings	2.9%
The rate of return on bond type investments	5.2%
The rate of return on equity and property assets	6.95%
The level of increase in earnings growth	4.4%

The result of the 2004 valuation was that the value of the Fund's assets was actuarially assessed as £264.7m which was sufficient to meet 65% of its accrued liabilities of £405.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund regulations, it has been necessary to increase the employers' contribution rates over the next three years of the actuarial valuation. The actuary's recommended employer's contribution rates for the Council were as follows:

	% of Pensionable Pay
April 2005 to March 2006	19.1
April 2006 to March 2007	20.3
April 2007 to March 2008	21.5