Havering
LONDON BOROUGH

# PENSIONS COMMITTEE

# AGENDA

| | | |
|---|---|---|
| **7.00pm (please note early start)** | **Thursday, 24 March 2011** | **Havering Town Hall, Main Road, Romford.** |

Members 7: Quorum 3

**COUNCILLORS:**

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

**Trade Union Observers**

**(No Voting Rights) (2)**

John Giles (Unison)
TBC

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

David Holmes


**For information about the meeting please contact:**
**James Goodwin (01708) 432432**
**E-mail: james.goodwin@havering.gov.uk**

# 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. DECLATION OF INTERESTS

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

## 4. MINUTES OF THE MEETING

To approve as correct the minutes of the meeting held on 1 December 2010 and of the Special meeting held on 28 February 2011 and authorise the Chairman to sign them.

## 5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2011

Reports attached

## 6. PENSION FUND INVESTMENT STRATEGY

Report attached.

## 7. URGENT BUSINESS

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

**Philip Heady**
**Democratic Services Manager**

**MINUTES OF A MEETING OF THE PENSIONS COMMITTEE**
**Havering Town Hall, Romford**
**14 December 2010 (7.30pm – 9.48pm)**

**Present:**

**COUNCILLORS**

| | |
|---|---|
| **Conservative** | Eric Munday (in the Chair), *Osman Dervish, Roger Ramsey and Melvin Wallace |
| **Labour** | #Keith Darvill |
| **Trade Union Observers** | Garry Chick-Mackay (Unison) |

Apologies for absence were received from Councillors Breading (# substitute Councillor Darvill) Ower, Tucker and White (*substitute Councillor Dervish) and from John Giles, Unison and David Holmes (Admitted/Scheduled Bodies Representative).

All decisions were made with no member voting against.

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

**17. MINUTES**

The minutes of the meeting held on 23 November 2010 were agreed as a correct record and signed by the Chairman.

**18. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

Officers advised the Committee that the net return on the Fund's investments for the quarter ending 30 September 2010 was 9.1%. This represented an out performance of 0.4% against the combined tactical benchmark and an outperformance of 2.5% against the strategic benchmark. For the year ending 30 September 2010 the net return was 8.2% which represented an underperformance of -3.9% against the annual tactical combined benchmark and an underperformance of -2.5% against the annual strategic benchmark.

The Committee **noted** the performance of the Fund.

**a) Hymans Robertson (HR) Monitoring Report.**

HR informed the Committee that both equity and bond markets had performed well during the quarter ended 30 September 2010**.** However, there were still deep concerns about the sustainability of the global economic recovery. The risk of a 'double dip' recession was a constant threat. As governments tackle troublesome budget deficits, the onus on the corporate sector to maintain the momentum of economic growth became greater.

HR highlighted key themes during the quarter, which were:

**Global Economy**

- Data for Q3 2010 confirmed continuing but fragile global economic recovery;
- Concerns of returns to recession rise, as economic growth in the US, Japan and Euro-zone decelerates;
- Short term interest rates held at close to zero in all major economic blocks;
- Central banks prepare markets for further round of quantitative easing to stimulate growth; and
- Deflationary concerns emerging despite past, and proposed, monetary easing.

**Currencies**

- Governments seek (competitive) currency devaluations to boost exports as domestic demand falters;
- China and USA raised stakes in 'clash' over alleged 'undervaluation' of the Renmindi;
- Japan makes unilateral intervention on currency markets to drive down value of Yen.

**Bonds**

- Yields fall (prices rise) in countries with strong finances and those managing deficits effectively;
- Differential yield spread between Eurozone bonds of 'strong' economies (e.g. Germany) and 'distressed' economies (e.g. Ireland, Italy, Portugal) widen to record levels.

HR advised the Committee of the individual performance of each of the six fund managers.

The Committee **noted** the report.

**(b) Presentation from UBS**

Claire Felgate – Capability Manager and Justin Brown, Portfolio Manager, UBS Triton delivered a presentation on behalf of UBS. They outlined details of the personnel changes which had been made to the UBS Triton team since the middle of 2009. The committee were advised that since the fund had disposed of a number of assets last year the team had succeeded in reducing the level of voids from 12.1% to 7.6%. This had been achieved exclusively through letting units. As a result of the steps taken by UBS the fund had matched or over performed against the median over the past year.

The Committee **noted** the report.

**(c ) Alliance Bernstein**

Anthony Pickering, Director – Client Relations and Patrick Rudden, Head – Blend Strategies delivered a presentation on behalf of Alliance Bernstein. In their presentation they dealt with the matter of personnel changes and looked back at the possible causes of their poor performance in 2008. For the second half of 2010 they had outperformed the benchmark but over the life of their relationship with the Pension Fund they had under performed relative to Target.

The Committee asked a number of key questions regarding Alliance Bernstein philosophy and strategy for dealing with a volatile market. The presentation highlighted previous errors in stock selection within the growth strategy and pointed to the relative success of the value strategy. In conclusion Alliance Bernstein offered to renegotiate the terms of their agreement with the fund moving to a performance based fee system.

The Committee **noted** the report.

**(d) Miscellaneous**

Having considered the officers report the Committee:

1. **Noted** the summary of the performance of the Pension Fund;
2. **Considered** the quarterly reports provided by each investment manager;
3. **Noted** that there were no governance issues;
4. **Noted** the analysis of the cash balances; and
5. **Agreed** to undertake a review of the Investment Strategy in the light of the ongoing valuation of the Fund.

**19. EXCLUSION OF THE PUBLIC**

**The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 7 of Schedule 12A to the Local Government Act 1972 which could reveal the identity of a individual and it was not in the public interest to publish this information**

**20. REVIEW OPTIONS**

Having considered the report of Hymans Robertson, the Investment Advisers, and discussed the options offered and after discussion and questions agreed the action detailed in a exempt appendix (Appendix One) that it is not in the public interest to publish for reason’s of commercial sensitivity.

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**MINUTES OF A SPECIAL MEETING OF THE PENSIONS COMMITTEE**
**Havering Town Hall, Romford**
**28 February 2011 (2.30pm – 4.35pm)**

**Present:**

**COUNCILLORS**

| | |
|---|---|
| **Conservative** | Eric Munday (in the Chair), *Steven Kelly, Melvin Wallace and Damian White |
| **Residents** | Ron Ower |
| **Labour** | Denis Breeding |
| **Trade Union Observers** | John Giles (Unison) |
| **Admitted / Schedules Bodies Representative** | David Holmes |

Apologies for absence were received from Councillor Ramsey (*substitute Councillor Kelly)

All decisions were made with no member voting against.

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

## 21. EXCLUSION OF THE PUBLIC

**The Committee resolved to exclude the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972.**

## 22. 2010 FORMAL VALUATION

Representatives of the Pension Fund's Actuaries attended the meeting to provide a briefing on the outcome of the 2010 Formal Valuation. The valuation was undertaken on the Fund as at 31 March 2010 and had to be completed by 31 March 2011. The purpose of the valuation was to

- Check the solvency of the Fund,
- Set contribution rates for 2011 to 2014, and
- Meet regulatory requirements.

The Committee were informed of the basis of the valuation and the assumptions used by the actuaries..

The valuation compared the position at 31 March 2010 with that at 31 March 2007. The Committee were advised that the position had improved in the last 12 months.

The Committee **noted** the report and acknowledged that the Group Director, Finance and Commerce would agree the valuation report.

## 23. INVESTMENT STRATEGY

The Investment Advisers submitted a report outlining initial options for a review of the Investment Strategy as a result of the valuation and the recent changes to the Investment Managers.

The Committee considered the options and requested a further report to the next meeting on 24 March 2011.

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|---|---:|
| | **5** |
| **PENSIONS COMMITTEE**<br>**24 March 2011** | **REPORT** |

| | |
|---|---|
| **Subject Heading:** | **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2011** |
| **Report Author and contact details:** | Debbie Ford<br>Pension Fund Accountant<br>(01708) 432569<br>debbie.ford@havering.gov.uk |
| **Policy context:** | Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met. |
| **Financial summary:** | This report comments upon the performance of the Fund for the period ended 31 December 2011 |

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

| | |
|---|---|
| Clean, safe and green borough | [] |
| Excellence in education and learning | [] |
| Opportunities for all through economic, social and cultural activity | [] |
| Value and enhance the life of every individual | [X] |
| High customer satisfaction and a stable council tax | [] |

## SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2011. 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 31 December 2011 was **5.1%**. This represents an out performance of **0.5%** against the combined tactical benchmark and an out performance of **8.1%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 December 2011 was **11.6%**. This represents an underperformance of **-1.9%** against the annual tactical combined benchmark and an under performance of **-0.2%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007 and further market crisis in the financials sector led to more market falls during 2008. 2009 saw markets rally on the back of an improvement in worldwide economic data, erasing some of the losses from the year before. Equity markets had a strong quarter on the back of improved market sentiments but as economic prospects improved this had a negative impact for bonds as global bond yields rose.

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

## RECOMMENDATIONS

That the Committee:

1) Considers Hymans performance monitoring report and presentation (Appendix A).
2) Receive presentations from the funds UK Equities Manager (Standard Life), Investment Grade Bonds Manager (Royal London) and the Multi Asset Manager (Ruffer).
3) Notes the summary of the performance of the Pension Fund within this report.
4) Considers the quarterly reports provided by each investment manager.
5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers).
7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

**REPORT DETAIL**

## 1. Background

1.1 A major restructure of the fund took place in the first quarter of 2005. A further restructure of the fund took place during the first half of 2008 and these changes were reflected in a revised Statement of Investment Principles (SIP) adopted by members in September 2008 and subsequently updated in June 2010.

1.2 As part of the SIP a strategic benchmark was adopted for the overall Fund of Gilts + 3.6% gross (3% net) per annum. In the revised SIP the strategic benchmark adopted for the overall Fund is Gilts plus 2.9% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. **The main factor in meeting the strategic benchmark is market performance.**

1.3 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance. No revisions were made to individual fund manager benchmarks as part of the investment strategy review. However the asset allocation has been revised and these are shown in the following table against the manager's benchmarks:

| **Manager and % of total Fund awarded** | **Mandate** | **Tactical Benchmark** | **Out performance Target** |
|---|---|---|---|
| Standard Life 20% | UK Equities -Active | FTSE All Share Index | 2% |
| Alliance Bernstein 25% | Global Equities - Active | MSCI All World Index | 2.5% |
| State Street 15% | UK/Global Equities - Passive | UK- FTSE All Share Index<br>Global (Ex UK) – FTSE All World ex UK Index | To track the benchmark |
| Royal London Asset Management 25% | Investment Grade Bonds | • 50% iBoxx Sterling Non Gilt Over 10 Year Index<br>• 16.7% FTSE Actuaries UK Gilt Over 15 Years Index<br>• 33.3% FTSE Actuaries Index-Linked Over 5 Year Index | 0.75% |

| Manager and % of total Fund awarded | Mandate | Tactical Benchmark | Out performance Target |
|---|---|---|---|
| UBS<br>10% | Property | IPD (previously called HSBC/AREF) All Balanced Funds Median Index | To outperform the benchmark |
| Ruffer<br>5% | Multi Asset | Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%. | To outperform the benchmark |

1.4 The Committee appointed a Multi-Asset Manager (Ruffer) and a Passive Equity Manager (State Street Global Advisors Limited (SSGA)) in February 2010. Both Managers commenced trading from 8th September 2010.

1.5 UBS and SSGA manage the assets on a pooled basis. Standard Life, Royal London, Alliance Bernstein and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.

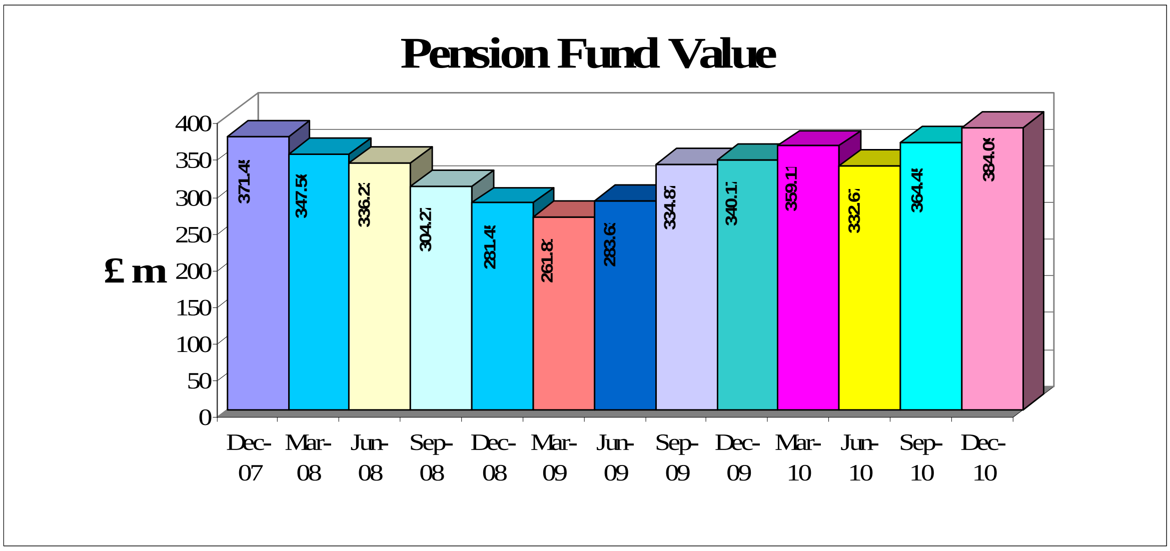
1.6 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.7 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset (Ruffer) and the Passive Equity (SSGa) Managers will attend two meetings per year, one with Officers and one with Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.

1.8 Hyman's performance monitoring report is attached at **Appendix A.**

## 2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 December 2011 was **£384.09m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £364.45m at the 30 Sept 2010; an increase of **£19.64m**. The movement in the fund value is attributable to an increase in fund performance of £19.17m and an increase in cash of £.47m. The internally managed cash level totals **£8.4m**, of which an analysis follows in this report.




*Source: WM Company (Performance Measurers)*

2.2 An analysis of the internally managed cash balance of **£8.4m** follows:

| **CASH ANALYSIS** | **2008/09** | **2009/10** | **2010/11** |
|---|---:|---:|---:|
| | £000's | £000's | £000's |
| | | | |
| **Balance B/F** | **-6673** | **-7999** | **-4763** |
| | | | |
| Benefits Paid | 23878 | 26926 | 18601 |
| Management costs | 1742 | 1939 | 1337 |
| Net Transfer Values | 156 | 2639 | -1958 |
| Employee/Employer Contributions | -26546 | -28251 | -21799 |
| Cash from/to Managers | -315 | 0 | 200 |
| Internal Interest | -241 | -17 | -28 |
| | | | |
| **Movement in Year** | **-1326** | **3236** | **-3647** |
| | | | |
| **Balance C/F** | **-7999** | **-4763** | **-8410** |

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

## 3. Performance Figures against Benchmarks

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

| | Quarter to 31.12.10 | 12 Months to 31.12.10 | 3 Years to 31.12.10 | 5 years to 31.12.10 |
|---|---|---|---|---|
| Fund | 5.1% | 11.6% | 0.5% | 2.5% |
| Benchmark return | 4.6% | 13.8% | 3.4% | 4.6% |
| *Difference in return | 0.5% | -1.9% | -2.9% | -2.0% |

*Source: WM Company*

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

3.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 3% per and then revised to 2.9%) is shown below:

| | Quarter to 31.12.10 | 12 Months to 31.12.10 | 3 Years to 31.12.10 | 5 years to 31.12.10 |
|---|---|---|---|---|
| Fund | 5.1% | 11.6% | 0.5% | 2.5% |
| Benchmark return | -2.8% | 11.8% | 8.6% | 6.9% |
| *Difference in return | 8.1% | -0.2% | -7.5% | -4.1% |

*Source: WM Company*

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

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

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

**QUARTERLY PERFORMANCE (AS AT 31 DEC 2010)**

| | Standard Life | Alliance Bernstein | Royal London | UBS | Ruffer | SSGA |
|---|---|---|---|---|---|---|
| Return (performance) | 8.0 | 9.4 | -1.9 | 1.7 | 5.2 | 8.9 |
| Benchmark | 7.4 | 9.4 | -2.1 | 2.1 | 0.2 | 9.2 |
| ***Over/(Under) Performance vs. Benchmark** | **0.6** | **0.0** | **0.2** | **(0.4)** | **5.0** | **(0.3)** |
| TARGET | 7.9 | 10.0 | -1.9 | n/a | n/a | n/a |
| *** Over/(Under) Performance vs. Target** | **0.1** | **(0.6)** | **0.0** | **n/a** | **n/a** | **n/a** |

*Source: WM Company, Fund Managers and Hymans*

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

**ANNUAL PERFORMANCE (LAST 12 MONTHS)**

| ANNUAL | Standard Life | Alliance Bernstein | Royal London | UBS | Ruffer | SSGa |
|---|---|---|---|---|---|---|
| Return (performance) | 13.2 | 11.6 | 11.0 | 11.7 | n/a | n/a |
| Benchmark | 14.5 | 16.2 | 9.4 | 12.3 | n/a | n/a |
| ***Over/(Under) Performance vs. Benchmark** | **1.1** | **(3.9)** | **1.5** | **-0.6** | **n/a** | **n/a** |
| TARGET | 16.5 | 18.7 | 10.15 | n/a | n/a | n/a |
| *** Over/(Under) Performance vs. Target** | **(3.1)** | **(6.0)** | **0.8** | **n/a** | **n/a** | **n/a** |

*Source: WM Company, Fund Managers and Hymans*

- Totals may not sum due to geometric basis of calculation and rounding.
- Ruffer and SSGa Inception from 8 Sept 2010

## 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 Quarter 4 performance follows:

b) Market Value of the fund as at 31 December increased by 7.23% compared with the previous quarter.

c) Standard Life outperformed the benchmark in the quarter by 0.6% and outperformed the target in the quarter by 0.1%. Since inception they are below benchmark by (0.4%) and (2.4%) against the target.

d) UK equities made further gains over the quarter, fears of a double-dip global recession receded and the FTSE 100 index again broke through the 6,000 barrier.

e) Fund Performance benefited from an overweight stance in industrial cyclical stocks but consumer related stocks was detrimental. Top sector contributors were in Automobiles & Parts, Support Services and Mining. Bottom sector contributors were Banks, Media, and Financial Services.

f) Top stock contributors were GKN, Xstrata, Rio Tinto

g) Top stock detractors were Anglo American, Lloyds Banking Group and Trinity Mirror.

**4.2. Global Equities (Alliance Bernstein)**

a) In accordance with agreed procedures officers met with representatives from Alliance Bernstein on the 22 February 2011 at which a review of the quarter 4 performance was discussed.

b) Market Value of the fund as at 31 December increased by 9.54% compared with the previous quarter.

c) Alliance Bernstein performance was flat against the benchmark and underperformed the target by (0.6%) (Net of fees). Since inception they are below benchmark by (2.9%) and below the target by (5.0%) (Net of fees).

d) Members decided at the committee meeting held on the 14 December 10 to terminate the mandate held with Alliance Bernstein. Assets were transferred to State Street Global Advisors on the 23 February 2011 on a temporary basis until further decisions about the investment strategy can be made. The first review of the investment strategy meeting will be starting on the 28 February 2011.

e) On the basis that the mandate is in the process of being terminated officers only focussed on reviewing quarter 4 performance and not on Alliance Bernstein's forthcoming strategies. Performance data will only be provided as at 31January 2011 and as the quarter will not be completed a review of the next quarter will not be undertaken.

f) Positive contribution came from sector positioning but this was offset by negative performance from stock selection and currency.

g) The biggest detractors to performance were in the energy, technology and healthcare sectors.

h) The biggest contributors to performance were the exposure to emerging markets and the benefits of the consumer- spending recovery.

i) Positive performance came from holding stocks in Consumer Discretionary stocks (Royal Caribbean Cruises, Ford Motor and Time Warner), Materials (Rio Tinto, Freeport-McMoran copper & Gold, Teck Resources and Lynas).

j) Negative performance came from holding stocks in Energy (Woodside Petroleum, not holding Exxon Mobil and Occidental Petroleum, Technology (Capgemini, Visa and Motorola), Healthcare (AstraZeneca and Gilead).

k) No governance or whistle blowing issues were reported.

**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 Quarter 4 performance follows:

b) Market Value of the fund as at 31 December decreased by 1.38% compared with the previous quarter.

c) Royal London outperformed the benchmark for the quarter by 0.2% and was flat against the target. Since inception they outperformed benchmark by 0.3%.

d) Asset allocation of the fund during the quarter was split over Conventional Credit Bonds (56%), Index Linked (25.9%), foreign index linked bonds (13.0%), Sterling Conventional gilts (3.5%) and cash (0.8%).

e) Royal London are overweight in Conventional credit bonds, Foreign Index Linked Sovereign and cash. They hold underweight positions in Sterling index linked bonds and sterling conventional gilts.

f) The overweight position in credit bonds detracted from performance and stock selection within both credit and government segments was beneficial. Active duration management was beneficial over the quarter.

**4.4. Property (UBS)**

a) In accordance with agreed procedures officers met with representatives from UBS on the 22 February 2011 at which a review of the quarter 4 performance was discussed.

b) The value of the fund as at 31 December 10 increased by 0.35% since the last quarter.

c) UBS under performed the benchmark in the quarter by -0.4% and underperformed the benchmark in the year by -0.6%. This under performance follows two consecutive quarters of out performance.

d) UBS are confident that this was a blip due to timings of some of the fund valuations.

e) The fund has now passed the majority of the write-offs from the previous year and feels that they are well placed to benefit from improved performance going forward with the retained portfolio, which now includes the more ‘prime ‘properties. The number of properties in the fund currently stands at 46.

f) As a result of asset management initiatives and sales the void rate has now reduced to 6.4% against a benchmark of just under 10%. Since Quarter 2 (June) 2009 the void rate has been reduced from its peak of 19.3%.

g) Now that UBS had achieved its goal of reducing the void rate UBS were asked how they were going to improve the quality of the portfolio. They stated that one of their aims is to improve income with improved tenancies.

h) The redemption queue is now valued at c£53m after a request was made at the beginning of December 10. UBS reiterated that assets were sold for strategic reasons and it is with regret that they are unable to use the proceeds from sales for future investments and having to use the proceeds to meet redemptions instead. UBS were requested to include redemption information in future presentations.

i) UBS were asked to explain their sector weightings and why they were overweight in both retail and retail warehouses and underweight in industrials. They stated that it was a strategy decision to be overweight in the retail sectors and are happy as there is demand for good stock. However they are looking to come out of the two weaker assets that they hold in this sector. They would target acquisitions in industrials if they had the cash.

j) On a personnel side UBS explained that the Fund Manager Alex O'Connell would be returning from maternity leave on the 14 March 2011 and the Assistant Portfolio Manager Jo Love will be returning from maternity leave on the 28 February for 3.5 days per week. UBS explained that this would not impact the management of the portfolio as Jonathan Rollick who was covering for Jo is now permanent and Justin Brown who was covering for Alex will still be involved with the portfolio.

k) No governance or whistle blowing issues were reported.

**<u>4.5. Multi Asset Manger (Ruffer)</u>**

a) Representatives from Ruffer's are to make a presentation at this committee, therefore a brief overview of Quarter 4 performance follows:

b) The value of the fund as at 31 December 10 increased by 5.39% since the inception date of 8 September 10.

c) Ruffer outperformed the benchmark for the quarter by 5.0%.

d) The portfolio asset allocation is currently invested in equities (48%), bonds (41%), Other (Gold forward Foreign exchange and options) (7%) and cash (4%).

e) Fund performance was helped by Japan following suit with some quantitative easing of its own, boosting the local equity market, in particular this benefits their holdings in financial stocks. There was also some strong individual stock selections including gains from investments in German property stocks.

f) Index Linked bonds detracted from performance where in a strong period for equities inflation protecting holdings were dull as bond yields rose globally. Index linked bonds in the fund did better than conventional bonds.

**4.6. Passive Equities Manager (SSGA)**

a) In accordance with agreed procedures officers will only meet with representatives from SSGa once in the year with the other meeting to be held with members. A brief review of the quarter 4 performance follows:

b) The value of the fund as at 31 December 10 increased by 8.90% since the inception date of 8 September 10.

c) SSGa under performed the benchmark for the quarter by -0.3%.

**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, Royal London and Ruffer

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

## IMPLICATIONS AND RISKS

**Financial Implications and risks:**

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

**Legal Implications and risks:**

None arising directly

**Human Resources Implications and risks:**

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

**Equalities and Social Inclusion Implications and risks:**

None arising directly

## BACKGROUND PAPERS

Standard Life Quarterly report to 31 Dec 2010
Alliance Bernstein Quarterly report to 31 Dec 2010
Royal London Quarterly report to 31 Dec 2010
UBS Quarterly report to 31 Dec 2010
The WM Company Performance Review Report to 31 Dec 2010
Hyman's Monitoring Report to 31 Dec 2010

Havering LONDON BOROUGH

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| **PENSIONS COMMITTEE**<br>**24 March 2011** | **REPORT** |

| | |
|---|---|
| **Subject Heading:** | **Pension Fund Investment Strategy** |
| **Report Author and contact details:** | Contact: Mike Board<br>Designation: Corporate Finance Manager<br>Telephone: (01708) 432217<br>E-mail Address:<br>mike.board@havering.gov.uk |
| **Policy context:** | The report considers the options for re-balancing the Asset allocation of the Fund |
| **Financial summary:** | By rebalancing the fund the financial risk of an over or under weight asset allocation is minimised. |

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

| | |
|---|---|
| Clean, safe and green borough | [] |
| Excellence in education and learning | [] |
| Opportunities for all through economic, social and cultural activity | [] |
| Value and enhance the life of every individual | [X] |
| High customer satisfaction and a stable council tax | [] |

**SUMMARY**

This report considers the advice given by the Pension Fund Investment advisors, Hymans Robertson in connection with the Funds asset allocation and makes recommendations to re-balance the fund.

## RECOMMENDATIONS

The Committee is asked to:

a) Approve the allocation of £7m in cash to the property portfolio manager, UBS Triton.

b) Increase the absolute returns mandate by 5% and reduce the Investment Grade bonds mandate by 5%.

c) Increase the funds allocated to Ruffer from 5% to 10 % to be funded by a reduction in the allocation to the bond manager, Royal London. The allocation is expected to be in the region of £18 million.

## REPORT DETAIL

**Background**

The Pension Fund's Statement of Investment Principles (SIP) includes the Fund's policy in connection with the types of investment held and the balance between those types of investment. A comparison between the actual and target allocations as at 31 December 2010 is set out below:

| Asset Class | Target Allocation as at 31 12 2010 % | Actual Allocation as at 31 12 2010 % |
|---|---|---|
| UK Equities | 27 | 31 |
| Global Equities | 33 | 29 |
| Investment Grade Bonds | 25 | 28 |
| Property | 10 | 5 |
| Absolute Return (All classes) | 5 | 5 |
| Cash | 0 | 2 |

The Fund's external advisors, Hymans Robertson have reviewed the strategy in the light of more recent developments such as the actuarial valuation and investment performance. Hymans are of the view that the priorities for investment strategy are unchanged. However, they have recommended some minor changes in order to rebalance the fund.

1. **Rebalancing the property portfolio**

   Hymans Robertson have recommended that the allocation to Property should be at or near target. UBS Triton, the funds portfolio manager have experienced a period of poor returns in the last two to three years. However, recent performance has improved and it has been recommended that the Fund should increase its allocation to this manager. A sum of £7 million in surplus cash has been identified which can be allocated to this portfolio as a first step in re-balancing the property portfolio.

2. **Increasing the Allocation to absolute returns**

   The absolute returns mandate is managed by Ruffer and the majority of funds held by them are invested in equities and bonds. When the Investment strategy was reviewed in 2008, Hymans recommended an allocation of 10% to 15% to this asset class. In view of the Pension Fund's limited experience with this form of Investment it was agreed to allocate 5% as an initial step.

   Hymans have recommended that the allocation to Ruffer be increased to 10%, by reducing the allocation to bonds by approximately £18 million.

If approved, options 1 and 2 should be completed during the first quarter of 2011/12.

3. **Equity allocation**

At present the Funds UK equity active management allocation is managed by Standard Life. The Global equities mandate has recently been moved from Alliance Bernstein to SSGA who manage this portfolio on an index tracking basis.

Hymans considers that the balance between active and passive management needs to be reviewed and they will produce a further report to the next Committee. They do not propose any changes in this allocation at present.

## IMPLICATIONS AND RISKS

**Financial implications and risks:**

The Fund's asset allocation has been established in order to assist the Pensions Committee achieve the Fund's objectives for Investment returns and to meet its long term liabilities. By rebalancing the fund the financial risk of an over or under weight asset allocation is minimised.

The precise timing of the rebalancing transactions will be made with the advice of Hymans Robertson and the bond manager Royal London in order to minimise the exposure to the risk of loss from market fluctuations. The risk of loss in valuation will also be minimised by managing the transactions on the same day.

Normal transaction costs will apply to the sale and disposal of assets.

**Legal implications and risks:**
The withdrawal of funds from the the bond manager, Royal London is normally subject to one months notice.

**Human Resources implications and risks:**
None arising directly.

**Equalities implications and risks:**
None arising directly.

**BACKGROUND PAPERS**

*None*