Havering
LONDON BOROUGH

# PENSIONS COMMITTEE

# AGENDA

| | | |
|---|---|---|
| **7.30pm** | **Thursday, 25 September 2008** | **Havering Town Hall, Main Road, Romford** |

Members 7: 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

**Independent Residents (1)**
Jeffrey Tucker

**Trade Union Observers**

**(No Voting Rights) (2)**
Brian Long (Unison)
Sean Ramsden (TGWU)

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

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

To approve as a correct record the minutes of the meeting held on 1 July 2008 and the special meetings held on 17 July 2008, and authorise the Chairman to sign them.

**5. PENSION FUND PERFORMANCE MONITORING REPORT FOR THE QUARTER ENDED 30 JUNE 2008**

**6. PENSION FUND ACCOUNTS AND ANNUAL REPORT 2008**

**7. INVESTMENT STRATEGY REVIEW - PROGRESS MONITORING AND ALTERNATIVES APPROACH REPORT**

**8. ANNUAL REPORT ON PENSION FUND ADMINISTRATION ACTIVITY**

**9. THE PENSIONS PANEL**

**10. URGENT BUSINESS**

**Cheryl Coppell**
Chief Executive

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

**1 July 2008 (7.30pm – 10.00pm)**

**Present:**

**COUNCILLORS:**

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

**Residents Group** +Ray Morgon

+ Substitute Members: Ray Morgon (for Clarence Barrett)

Apologies for absence were received from Councillors Clarence Barrett, Robby Misir and Linda van der Hende

Also in attendance at the request of the Committee: Hyman Robertson

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

## 1. MINUTES

The minutes of the meeting held on 18 March 2008 and special meetings of 13 May and 9 June, 2008 were agreed as a correct record and signed by the Chairman.

## 2. PENSION FUND PERFORMANCE MONITORING REPORT FOR THE QUARTER ENDED 31 MARCH 2008.

The Chairman drew Committee Members attention to the Council officers' report and the three accompanying presentation briefings by Hyman Robertson (Pension Fund Investment Advisors), Alliance Bernstein, (Global Equities Manager) and Western Asset (Global High Yield Bond Manager).

Hyman Robertson were invited to summarise their opinion on market conditions and the contents of the two presentation briefings by the Asset Portfolio Managers.

The Committee heard that, over the period from January to May, equity markets had broadly fallen by 10%. Emerging market stocks had held up well initially but were now beginning to come under increasing pressure.

Government Bonds had sustained their position well. Corporate bonds, by contrast, had started to become affected by debt market sentiments and the increasing oil and energy pricing.

Equity markets fell significantly in the second quarter (Q2) over high or increasing oil price fears. Credit/Finance markets remain weak and this is impacting on the Housing and Construction sectors. Figures to June were still substantially down.

Hymans referred Members to elements within their briefing. Performance data against Benchmarks and Strategic Benchmarks over the past 3 months, 12 months and since inception, and its impact on the Pension Fund was explained more fully.

Members were taken through individual manager performance over the last quarter, one year, three years and since inception. Since the last actuarial valuation the LBH Pension Fund's higher weighting in bonds had improved returns relative to equities.

Individual managers' performance had fared very differently and these were compared. Some had seen 'bounce backs' which it is hoped they will maintain. Other results appeared patchy with some worrying trends notwithstanding the volatility of the markets over recent months. It was noted that bond markets still remain uncertain and that any property element will be difficult to value on a day to day basis, as daily updates are not available. In some areas manager performance was unimpressive due to underperformance or poor asset/stock selections.

The Committee **noted** the recommendations of the report

**PRESENTATION BY ASSET MANAGER – Alliance Bernstein.**

The Committee received a presentation from Alliance Bernstein Global Equities Managers. Within the presentation the managers' mandate was briefly reviewed, and Members heard that the last few months had been "very challenging" but the managers "remained confident that over time they could deliver the returns the Committee expected".

The disappointing performance in Q1 and Q2, 2008 was compared to the position over the last twelve months. It was noted that overall performance had covered managers fees but little else. Stock selection had been the main detractor from performance, this principally being financials. An outline was given to pursue complimentary Growth and Value opportunities, that the managers felt existed in the market.

In response to Member's questions, the managers informed the meeting that they had subscribed to financial rights issues as they believed "that banks do not need to be capitally constrained at present" as the margins on lendings are up, enhancing holdings in the Growth area of the portfolio. Although financials are the second biggest overweight in the portfolio, a 'bounce back' was anticipated which may be seen "as the fear factor coming out". The timing of this could be difficult to predict.

Alliance Bernstein informed Members their investment research concentrated on public information, but that this is now more visible, especially in the financial sector.

The Committee **noted** the presentation and the Chairman thanked Alliance Bernstein.

Following Alliance Bernstein's presentation Members briefly took the Investment Manager's opinions of the presentation.

**PRESENTATION BY ASSET MANAGER – Western Asset**

The Committee received a presentation from Western Asset (Global High Yield Bond Manager)

Members were taken through the principles of the original mandate and how the swap mechanism within this worked to produce returns using LIBOR in exchange for gilts index returns. The risks by sector were also outlined and the managers drew Members attention to the length of the mandate being longer than the duration of the bonds. The performance of the portfolio against the benchmark was now down nearly 5%, with all sectors recording negative returns.

The Committee was informed that corporate USA was still thought to be in 'good shape', although UK markets indicated some very unusual activities happening. Examples of unusual market activity were given to the Committee. Q1, 2008 was seen as the worst quarter for risk taking in the bond market. If nothing changed the managers anticipate exceeding their benchmark.

Members were informed that there were very few clients in the current mandate, which uses a long gilt benchmark (15 years +) delivered via a swap structure to produce its returns.

A new proposal was put to the Committee that introduced a cash benchmark and the removal of the swap structure. It was stated that this would give the Managers more scope to perform and produce better results. They proposed switching the investments into a new mandate, and suggested the WA Global Multi-sector Fund. Details of the investment objectives, the risk controls and ease of asset transfers were given to the Committee, however it was noted that all clients within the existing mandate would need to make the transfer if costs were to be kept to the minimum. The characteristics, investment results and risk/reward profile were also given.

The Committee **noted** the presentation and the Chairman thanked Western Asset.

Following Western Asset's presentation Members briefly took the Investment Manager's opinions of the presentation.

Members noted that any change of assets is likely to incur costs to a lesser or greater degree and these would need to be carefully researched before any action could be contemplated.

## 3 URGENT BUSINESS

The Committee was asked to agree a change of dates for its November and December meetings.

The Committee **agreed** to move its meeting of 13 November 2208 **to 4 November 2008** but that the December date should remain unchanged.

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

**17 July 2008 (1.30pm – 3. 50pm)**

**Present:**

**COUNCILLORS:**

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

**Residents Group** Clarence Barrett

Apologies for absence were received from Councillors Robert Benham and Linda van den Hende. Apologies were also tendered by Brian Long (Unison Observer)

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

## 4. EXCLUSION OF THE PUBLIC

**The Committee decided on the motion that the public should be excluded from the meeting during discussion of the matter referred to in the minute next following on the ground that it was likely that, in view of the nature of the business to be transacted, if members of the public were present there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which is commercially confidential and it was not in the public interest to publish the information.**

## 5. INVESTMENT STRATEGY REVIEW (Phase three) – Hyman Robertson

An explanation outlining the third phase of the Investment Strategy Review was provided to Members by the Pension Fund's Investment Advisors, Hyman Robertson, who made reference to a report before the Committee.

The Committee received the Investment Advisor's recommendations 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.

Havering
LONDON BOROUGH

| MEETING | DATE | ITEM |
|---|---|---|
| **PENSIONS COMMITTEE** | **25 SEPTEMBER 2008** | **5** |

**REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30th JUNE 2008**

**SUMMARY**


This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31st March 2008. 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 30th June 2008 was **-3.6%**. This represents an under performance of **-1.9%** against the combined tactical benchmark and an underperformance of **-0.3%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30th June 2008 was **-10.8%**. This represents an underperformance of **-6.1%** against the annual tactical combined benchmark and an underperformance of **-18.2%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007 and investor confidence fell sharply during the second quarter of 2008. In addition to the continuing problems arising from turmoil in credit markets, investors were further unsettled due to emergence of inflationary pressures.

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).

**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. This is the expected return in excess of the fund's liabilities over the longer term. The main factor in meeting the strategic benchmark is market performance.

1.3 Individual manager performance and asset allocation will determine the outperformance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance. The tactical benchmarks 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 | • 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% |
| 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 Over the last three months members have been reviewing the funds' investment strategy and in particular have been re-evaluating the existing asset allocation. In summary, members have decided to reduce the funds overweight position in Bonds to 25% and increase the funds underweight position in Global Equities to 30%. To achieve this members agreed to redeem all the units held in the Western Asset Fund (which represented 10% of the allocation) and reduce the Royal London holdings by 5%. The 10% taken from Westerns will in the first instance be given to Alliance Bernstein (Global Equity manager). The 5% taken from Royal London will be used to invest in an 'alternative' asset class.

1.5 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.

1.6 Since the Quarter 3 (September 06) Report, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

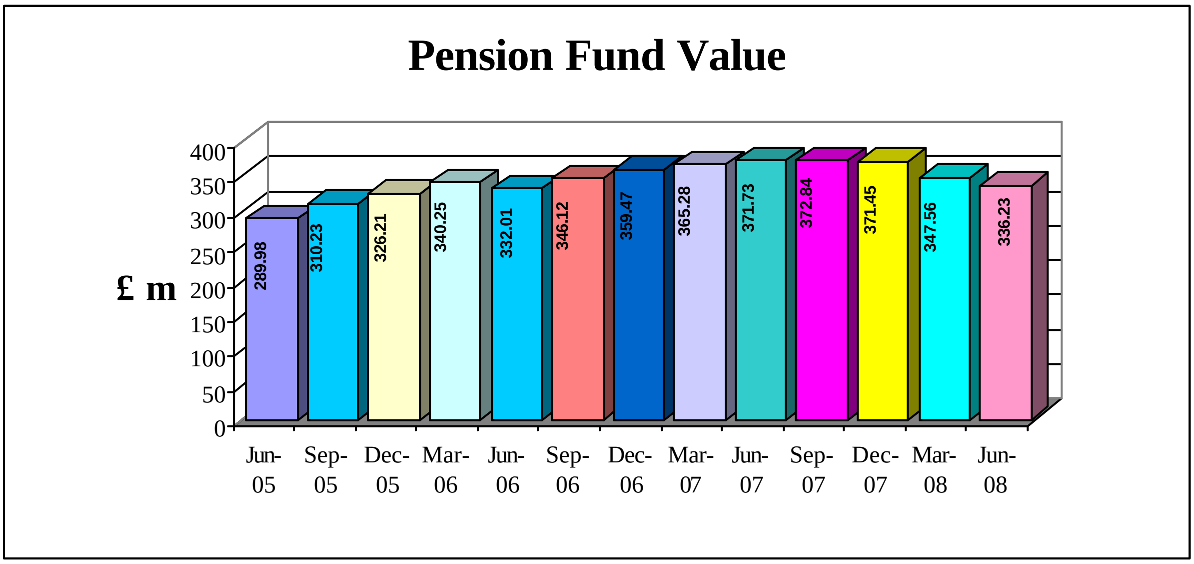
1.7 Managers are invited to present at the Pensions Committee Meeting every 6 months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. Managers who are to make presentations to this Committee are:

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

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 30th June 2008 was **£336.23m**. 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 £347.56 at the 31st March 2008; a decrease of **(£11.33m).** The decrease in the fund value is attributable to fund performance. The internal cash level totals £7.1m, of which an analysis follows in this report. The Quarter 1 performance is also outlined in this report.




*Source: WM Company (Performance Measurers)*

2.2 An analysis of the internally managed cash balance of £7.1m (as at 8 July 08) follows:

| **CASH ANALYSIS** | **2004/05** | **2005/06** | **2006/07 (Revised)** | **2007/08 (Revised)** | **2008/09** |
|---|---|---|---|---|---|
| | £000's | £000's | £000's | £000's | |
| **Balance B/F** | **115** | **-792** | **-3052** | **-3706** | **-6673** |
| Benefits Paid | 17926 | 19286 | 20886 | 22852 | 5663 |
| Management costs | 825 | 1435 | 1592 | 1869 | 412 |
| Net Transfer Values | 1979 | 962 | -1341 | -2520 | -240 |
| Employee/Employer Contributions | -19195 | -21777 | -23536 | -24922 | -6265 |
| Cash from/to Managers | -2462 | -2114 | 1945 | 0 | 0 |
| Internal Interest | 20 | -52 | -200 | -246 | -84 |
| **Movement in Year** | **-907** | **-2260** | **-654** | **-2967** | **-514** |
| **Balance C/F** | **-792** | **-3052** | **-3706** | **-6673** | **-7187** |

## 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 30.06.08 | 12 Months to 30.06.08 | 3 Years to 30.06.08 | 5 years to 30.06.08 |
|---|---|---|---|---|
| Fund | -3.6 | -10.8% | 4.1% | 7.9% |
| Benchmark | -1.7 | -5.1% | 4.9% | 8.7% |
| *Difference in return | -1.9 | -6.1% | -0.7% | -0.7% |

*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 annum) is shown below:

| | Quarter to 30.06.08 | 12 Months to 30.06.08 | 3 Years to 30.06.08 | 5 years to 30.06.08 |
|---|---|---|---|---|
| Fund | -3.6 | -10.8% | 4.1% | 7.9% |
| Benchmark return | -3.2 | 9.0% | 4.1% | 8.7% |
| *Difference in return | -0.3 | -18.2% | 0.0% | -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 30th JUNE 2008)**

| | Standard Life | Alliance Bernstein | Royal London | Western Asset* | UBS |
|---|---|---|---|---|---|
| Return (performance) | (6.1) | (2.2) | (1.0) | (5.5) | (3.5) |
| Benchmark | (1.4) | (1.7) | (0.9) | (4.0) | (2.7) |
| ****Over/(Under) Performance vs. Benchmark** | **(4.7)** | **(0.5)** | **(0.1)** | **(1.5)** | **(.8)** |
| TARGET | (0.90) | (1.08) | (0.7) | (3.2) | n/a |
| **** Over/(Under) Performance vs. Target** | **(5.20)** | **(1.13)** | **(0.3)** | **(2.3)** | **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) | (19.4) | (14.2) | 3.3 | (2.8) | (16.1) |
| Benchmark | (13.0) | (8.5) | 5.5 | 5.9 | (15.0) |
| ****Over/(Under) Performance vs. Benchmark** | **(7.3)** | **(6.2)** | **(2.1)** | **(8.3)** | **(1.1)** |
| TARGET | (11.0) | -6.0 | 6.3 | 8.9 | n/a |
| **** Over/(Under) Performance vs. Target** | **(9.4)** | **(8.7)** | **(2.7)** | **(10.8)** | **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 meet with WM Performance Services annually where an overview of the fund's performance for the year is discussed. This took place 6 August 2008 and the fund's performance for the period 1 April 07 to 31 March 08 was discussed.

3.4.2 WM collate data from a total of 88 local authorities to produce a WM universe benchmark (WM average).

3.4.3 The information discussed with WM is as follows:

- Confirms that performance relative to the benchmark has not been achieved in 07/08.

- Local Authorities have all done badly against the WM indices. Our expected return was less because of the weighting in bonds versus equities. The review of the investment strategy will now change this.

- In the climate at the time when we expected to capitalise on having a lower level in equities this was not achieved due to the performance of Westerns. This is reflected in the rankings with other local authorities which sees us in the 85 percentile (down from 60 percentile in 06/07). They supported the view that buying into equities at this time may go some way at recovering the position.

- In the last three years no manager achieved their target (Benchmark plus outperformance) but all except Westerns were close.

- WM did suggest that we consider performance related fees. Members will recall that this was considered and it was agreed that these would not be introduced on the grounds that the pension fund was paying competitive rates, offering value for money or the change in cost was marginal.

## 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) The value of the fund as at 30 June 2008 has seen a decrease of 8.78% since March 08. Since inception the fund value has increased by 24.75%.

c) Standard Life under performed against the benchmark in quarter 2 by -4.7% and under performed against the target by -5.2%.

d) Equity markets continued with their downward trend. Markets started the quarter positively but inflation and economic concerns then combined to send equities lower. Banks continued to come under pressure and Standard life's overweight position in Royal Bank of Scotland, Barclays and HBOS detracted from performance.

### 4.2. Global Equities (Alliance Bernstein)

a) In accordance with agreed procedures officers met with representatives from Alliance Bernstein on the 6th August 2008 at which a review of the quarter 2 (April to June 08) performance was discussed.

b) The Market Value of their portfolio decreased by 1.9% since March 08 but since inception has risen by 39.6%.

c) In Quarter 2 Alliance Bernstein underperformed the benchmark by (0.5%) (Net of fees) and underperformed the target by (1.1%). Since inception they are below benchmark by (0.2%) and below the target by (2.7%).

d) The portfolio benchmark is to be split 50/50 between growth and value stocks. As at Quarter 2 this split is 50.9% Value and 49.1% Growth with an overlap of 8.5%.

e) The best performance came from the growth sleeve which outperformed the growth benchmark with the value sleeve driving the performance deficit. Performance from the growth sleeve was not enough to offset the poorer performance of the value sleeve.

f) Concerns were raised with Alliance Bernstein on their ethos of their blend portfolio and whether it is still effective. The value and growth sleeve is combined as a blend so should one sleeve under perform the other sleeve would outperform and deliver an overall positive performance. Alliance Bernstein explained and demonstrated in their presentation that the blend formula is working but the performance deficit has come from stock selection.

g) The main detractors in stock selection came from Lehman Brothers, AIG, Fannie Mae, Morgan Stanley and Renault. The main contributors to Stock Selection came from Noble Energy, Baker Hughes, ConocoPhillips, Xstrata and Cameron International.

h) Performance Contributors to the portfolio came from sector and currency selections. Positives coming from being overweight in materials and the Brazilian real and the detractors coming from being overweight in Financials and underweight in Sterling.

i) Alliance Bernstein were asked to comment on their recent announcement that it is reorganising its Blend Group after the CIO has moved to head a new initiative within Alliance Bernstein together with three other members of the blend team. Alliance Bernstein gave assurances that this would have no impact on our mandate as the decisions made within the Blend team are already made by those members remaining.

j) Discussion took place with Alliance Bernstein regarding the risk controls within the portfolio and they explained that they undertake stress testing and factor in worst case scenarios. Other measure of risk is undertaken in the monitoring of tracking errors.

k) Discussion also took place regarding tracking errors (this is a way of measuring how much the returns from our portfolio have varied, or are likely to vary from the benchmark). Portfolios with higher tracking errors are more likely to look different from the benchmark, hence higher risk whereas lower tracking errors means they are more likely to look similar, hence lower risk (Our portfolio has a tracking error range of 3 to 7%). Historically over the past five years the blend portfolio has delivered an actual deviation from the benchmark of 2.7% and looking forward expects the deviation to be 2.5%. Alliance Bernstein explained that market volatility is the mean reason behind low levels of tracking errors. Alliance Bernstein have since forwarded a paper on tracking errors.

l) Investment Strategy Update – As members had decided to increase the fund's weighting in global equities, this will be given to Alliance Bernstein in the first instance to capture any immediate equity opportunities. It was reiterated to Alliance Bernstein that additional investment with them was to be on a temporary basis and would only remain with them if improvements were made to their current performance. This additional investment is to phased over three instalments (middle of August, middle of September and middle of November).

m) 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 Standard Life are to make a presentation at this Committee, therefore a brief overview of the quarter 2 performance follows:

b) The value of the fund decreased by 1.2% since March 08 but since inception the fund value has increased by 10.8%.

c) Royal London underperformed the benchmark for the quarter by -0.1% and underperformed against the target for the quarter by -.3%.

d) Performances in the asset classes were mixed. The UK government bonds and sterling credit bonds contributed positively whilst the index linked assets detracted from the relative return.

e) Investment Strategy Update - Royal London have been notified that as a result of the investment strategy review, 5% of the fund's allocation will be taken from Royal London's Index Linked Gilts to fund an investment in an alternative asset class.

## 4.4. Global High Yield Bonds (Westerns)

a) Investment Strategy Update - following the Investment Strategy Review, members agreed to reduce the fund's position in Bonds and thus redeemed all the units held in the Western Asset Fund. Redemption was completed on the 1st August at a value of £27,755,572.49.

## 4.5. Property (UBS)

a) The value of the UBS Triton Property Fund as at 30 June 2008 has seen a decrease of 5.45% since their last report to members as at 31 March 08. The fund value has increased since inception by .40%.

b) UBS underperformed the benchmark in the quarter by -.8% and underperformed the benchmark by 1.1% over the last 12 months.

c) The UK commercial property market continued its decline during the quarter. The fund remains overweight in South east offices and retail. The fund is underweight in retail warehousing, offices in the rest of the UK and industrials.

d) There were no sales in the quarter. They have increased the number of tenants at Trinity Street Retail Park in Bolton. In Southampton thy have let the second 'high street' retail units created from the former Woolworths store. In the regional office market they have let the first floor of Leaf House in Newbury. These new lettings will result in rentals increases.

e) Any proceeds from future sales will be used to meet redemption requests.

f) Legislation concerning Stamp Duty Land Tax (SDLT) in the Finance Act 2008 received Royal Assent on 21 July 2008. The legislation now retrospectively restores the Fund's original SDLT tax treatment. Consequently, the 4.25% retention for any potential SDLT liability, implemented in November 2007 will no longer apply to primary market subscriptions and redemptions with immediate effect.

## 5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which is available for scrutiny in the Members Lounge.

2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.

3. Receive quarterly information from the Investment Managers, detailing new Investments made.

   - Points 1 and 3 are contained in the Managers' reports.

   - With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

**This report is being presented in order that:**

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.

- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

  Alliance Bernstein and Westerns

- 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:**

None arising directly

**Human Resources Implications and risks:**

None arising directly

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

None arising directly

Staff Contact: Debbie Ford
Designation: Pension Fund Accountant
Telephone No: 01708 432569
E-mail address: debbie.ford@havering.gov.uk

**CHERYL COPPELL**
**Chief Executive**

**Background Papers List**

Standard Life Quarterly report to 31st March 2008
Alliance Bernstein Quarterly report to 31st March 2008
Royal London Quarterly report to 31st March 2008
Western Asset Quarterly report to 31st March 2008
UBS Quarterly report to 31st March 2008
The WM Company Performance Review Periods to 31st March 2008
Hyman's Monitoring Report to 31st March 2008

**Havering**
LONDON BOROUGH

| MEETING | DATE | ITEM |
|---|---|---|
| **PENSION COMMITTEE** | **25 SEPTEMBER 2008** | **6** |

**REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: PENSION FUND STATEMENT OF ACCOUNTS – YEAR ENDED 31ST MARCH 2008**

**SUMMARY**

This report provides Members with an extract of the Council's Statement of Accounts for the year to 31st March 2008 showing the accounts of the Havering Pension Fund as at that date.

This report also includes items which are required to be published under the LGPS (Administration) Regulations 2008 as part of a Pension Fund Annual Report

**RECOMMENDATION**

1. That the Committee note the Havering Pension Fund Accounts as at 31st March 2008.

2. That the committee consider the options available for publication of the Pension Fund Annual Report.

**REPORT DETAIL**

## 1. Background

1.1 The Council's Draft Statement of Accounts for 2007/08 was presented to the Audit Committee on 27th June 2008. 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 decreased to **£349m** for 2007/08 from £366m in 2006/07, a net decrease of £17m. The bulk of the decrease is attributable to a change in the market value of assets of (£32m), offset by investment income of £12m and net additions of £3m. (The change in market value is made up of unrealised losses of (£48m) offset by realised gains/losses of £16m). This is reflective of unprecedented volatility during the later half of 2007 in the wake of the credit crunch, sub-prime mortgages and plummeting stock markets.

- The overall return on the Fund's investments was (5.9%). Against the tactical benchmark this was (3.6%) and against the strategic benchmark was (13.0%). Main detractors from performance in 2007/08 were attributable to stock selection in UK and overseas Equities.

1.4 The Pension Fund extract of the accounts for 2007/08 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 which commenced from 1 April 2008 contains a requirement to publish a 'pension fund annual report'. This is to be published by no later than 1st December following the accounting year, therefore the report covering the 2007/08 reporting period should be published by the 1st December 2008.

1.6 The pension fund annual report, as a minimum must include the following items against which I have included the authorities current position in **bold**:

a) The Trustees' report – this report will include information to explain how the scheme is managed and its financial development during the year. **The authority has published an annual report dated March 08 which goes some way to meeting this requirement, although we would possibly need to rename it. Arrangements are being made to publish this on the council's website.**
b) An Investment Report – This explains the policies on investments and the strategy for achieving its policies. This should also include comparisons against any benchmarks adopted including commentary on general economic and market conditions. **The 07/08 statement of accounts includes narrative which goes some way to meeting this requirement; again we may need to rename it.**
c) A report of the arrangements made during the year for the administration of the fund. **Officers are currently seeking clarification on what should be included in this report.**
d) A statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund and disclosing the funding level (actuarial valuations and certificates). **Officers will seek clarification**

**from our actuaries as to whether extracts from the 2007 valuation report will meet this requirement.**

e) Current version of the governance compliance statement. **Current version dated July 08 and published on the council's website.**
f) The fund account and net asset statement with supporting notes and disclosures. **Currently available for 07/08, included on this September agenda.**
g) An annual report dealing with –
    - The extent to which the authority and employing authorities in relation to which it is the administrating authority have achieved any levels of performance set out in the pension administration strategy.
    - Other matters arising from its pension administration as it considers appropriate. **Current regulations state that the authority has the discretion on whether to adopt an administration strategy, the authority is currently continuing to review this and if it later decides to adopt an administration strategy, it would need to be included in the annual report.**
h) Current version of the funding strategy statement. **Current version applicable for 07/08 accounts as dated December 06 and published on the councils' website.**
i) Current version of the statement of investment principles. **Current version applicable for 07/08 accounts as dated December 06 and published on the councils' website.**
j) Current version of the statement of policy concerning communications with members and employing authorities. **Current version available dated November 07 and published on the council's website.**
k) Any other material with is considered appropriate.

1.7 Communities and Local Government (CLG) issued a covering letter in June 2007 in which they state that as an alternative to publishing a hard copy of the report authorities will be able to 'sign post' the individual items in a simpler document which can be 'published' on the website. They also state that the word 'publish' is to be given a wider meaning in that it is to make the report accessible or available.

1.8 The committee will need to consider how to publish this document and consider the following options:

a) Publish a hard copy in black & white or colour which will incur design and printing costs. It is difficult to estimate how much this would cost without knowing the full content but based on a 50 page A4 colour booklet estimates have come in the region of £1,200 for the design. Again depending on how many booklets are produced printing costs for around 50 copies are estimated at about £200.00.
b) Publish the report electronically :
    - As individual items on the councils dedicated webpage for pensions, or
    - As one document.

c) A draft version of the report or any required changes to any existing documents can be presented to members for approval at the November committee meeting.

**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

**Staff Contact:** Debbie Ford
**Designation:** Pension Fund Accountant
**Telephone:** (01708) 432569
**E-mail address**: debbie.ford@havering.gov.uk

**CHERYL COPPELL**
**Chief Executive**

**Background Papers**
Working papers held within the Corporate Finance Section.
Draft Statement of Accounts 2007/08.

# 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 2008 | As at 31 March 2007 |
|---|---|---|
| Contributors | 5,803 | 5,664 |
| Deferred pensioners | 3,094 | 2,762 |
| Pensioners and Dependants | 4,587 | 4,468 |

**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

**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 2008 were as follows:

| Manager | Mandate | Value £,000 | % |
|---|---|---|---|
| Standard Life | UK Equities | 110,443 | 32.65 |
| Alliance Bernstein | Global Equities | 72,370 | 21.40 |
| Royal London | Investment Grade Bonds | 95,331 | 28.19 |
| Westerns | Global Bonds | 29,293 | 8.66 |
| UBS | Property | 30,009 | 8.87 |
| | **Sub total** | **337,446** | **99.77** |
| | Other | 773 | 0.23 |
| | **Total Fund** | **338,219** | **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 Pension Fund 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 2007/08, the overall return on the Fund's investments was (5.9%) (2006/07 6.3%) This represented an under performance of (3.6%) against the tactical benchmark (2006/07 0.8%) and an underperformance of (13.0%) against the strategic benchmark (2006/07 4.4%).

There has been unprecedented volatility in 2007/08 in the wake of the credit crunch, sub-prime mortgages and plummeting stock markets.

Main detractors from performance for 2007/08 was attributable to stock selection in UK and Overseas Equities.

During the forthcoming year the Fund is undergoing a review of its current investment strategy with a view to a possible restructure of asset allocation.

The longer term performance is as follows:

| | 3 years to 31.3.08 | 5 years to 31.3.08 |
|---|---|---|
| Fund | 7.3% | 10.8% |
| Benchmark (tactical) return | 7.8% | 11.6% |
| Difference | (0.5)% | (0.8)% |

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2007-2008

## Pension Fund Account for the year ended 31st March 2008

| 2006/07 £'000 | | Notes | 2007/08 £'000 |
|---|---|---|---|
| | **Contributions and benefits** | | |
| 23,666 | Contributions receivable | 3 | 24,963 |
| 3,574 | Transfers in | 4 | 4,178 |
| **27,240** | | | **29,141** |
| (21,028) | Benefits payable | 5 | (22,719) |
| (2,246) | Leavers | 6 | (1,660) |
| (534) | Administration | 7 | (580) |
| **(23,808)** | | | **(24,959)** |
| **3,432** | **Net additions (withdrawals) from dealings with members** | | **4,182** |
| | **Returns on Investments** | | |
| 10,479 | Investment income | 9 | 11,686 |
| 12,596 | Change in market value of investments | 8 | (31,955) |
| (1,195) | Investment management expenses | 10 | (1,153) |
| **21,880** | **Net returns on investments** | | **(21,422)** |
| **25,312** | **Net increase/ (decrease) in the Fund during the year** | | **(17,240)** |
| 340,836 | Net assets of the scheme at start of year | | 366,148 |
| **366,148** | **Net assets of the scheme at end of year** | | **348,908** |

**Net Asset Statement**

| **31 March 2007 £'000** | | Note | **31 March 2008 £'000** |
|---|---|---|---|
| | **Investments** | 11 | |
| 192,478 | Equities | | 173,347 |
| 65,009 | Fixed interest securities | | 64,855 |
| 28,000 | Index-linked securities | | 29,865 |
| 0 | Mortgaged Backed Securities | | 0 |
| 71,037 | Pooled Investment Vehicles | | 65,171 |
| 0 | Other | | 0 |
| | **Cash instruments** | | |
| 15 | Short-term Securities | | 5 |
| 7,005 | Cash & deposits | | 11,648 |
| **363,544** | | | **344,891** |
| 2,604 | **Net current assets** | 12 | 4,017 |
| **366,148** | **Net assets of the scheme at end of year** | | **348,908** |

I certify that the Pension Fund Account and Net Assets Statements fairly present the income and expenditure in 2007/08 and the Pensions Fund's financial position as at 31st March 2008.

*Rita Greenwood, CPFA*
*Group Director Finance and Commerce*
*Date 25 June 2008*

# 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

| 2007/08 | Employees £'000 | Employers £'000 | Total £'000 |
|---|---|---|---|
| Havering | **4,702 | 16,595 | 21,297 |
| Special Contribution | | *587 | 587 |
| Scheduled Bodies | 590 | 1,721 | 2,311 |
| Admitted Bodies | 180 | 588 | 768 |
| | **5,472** | **19,491** | **24,963** |

| 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** |

* The special contribution of .587m is in respect of early retirements.

**This includes £119,000 of additional contributions by employees to purchase added years

***Note:*** Some employees made additional voluntary contributions (AVC's) of £77,130 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 2007/08 were £72,029 to the Prudential, £2,877 to the Nationwide and £2,224 to Standard Life.

## 4. Transfers In

| | 2007/08 £'000 | 2006/07 £'000 |
|---|---|---|
| Individual transfers from other schemes | 4,178 | 3,574 |

**5. Benefits Payable**

| 2007/08 | Pensions £000 | Lump Sums £'000 | Total £'000 |
|---|---|---|---|
| Havering | 18,272 | 3,867 | 22,139 |
| Scheduled Bodies | 189 | 221 | 410 |
| Admitted Bodies | 53 | 117 | 170 |
| | **18,514** | **4,205** | **22,719** |

| 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**

| | 2007/08 £'000 | 2006/07 £'000 |
|---|---|---|
| Refunds to members | 1 | 13 |
| Transfers out to other schemes | 1,659 | 2,233 |
| | **1,660** | **2,246** |

**7. Administration**

| | 2007/08 £'000 | 2006/07 £'000 |
|---|---|---|
| Staff Costs | 461 | 442 |
| Fees | 107 | 56 |
| Computer and Other | 12 | 36 |
| | **580** | **534** |

**8. Investments**

| | Value at 31 March 2007 £'000 | Purchases at cost £'000 | Sales Proceeds £'000 | Change in Market Value £'000 | Cash Movement £'000 | Value at 31 March 2008 £'000 |
|---|---|---|---|---|---|---|
| Equities | 192,478 | 94,121 | (89,841) | (23,411) | 0 | 173,347 |
| Fixed interest Securities | 65,009 | 147,714 | (141,303) | (6,565) | 0 | 64,855 |
| Index-linked Securities | 28,000 | 17,396 | (18,678) | 3,147 | 0 | 29,865 |
| Mortgaged Backed Securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Pooled Investment Vehicles | 71,037 | 0 | (705) | (5,161) | 0 | 65,171 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash instruments | 15 | 26,377 | (26,387) | 0 | 0 | 5 |
| Cash deposits | 7,005 | 0 | 0 | 35 | 4,608 | 11,648 |
| | **363,544** | **285,608** | **(276,914)** | **(31,955)** | **4,608** | **344,891** |

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.

Some of the 2007/08 opening balances were revised due to a review of asset classification during 2007/08, as follows:

| | Balance as at 31.3.07 | Prior year Adjustment | Revised Balance as at 31.3.07 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Equities | 197,966 | (5,488) | 192,478 |
| Fixed Interest Securities | 66,966 | (1,957) | 65,009 |
| Index-Linked Securities | 22,383 | 5,617 | 28,000 |
| Mortgage Backed securities | 2,745 | (2,745) | 0 |
| Pooled Investment Vehicles | 65,549 | 5,488 | 71,037 |
| Other | 915 | (915) | 0 |
| Short-term securities | 15 | 0 | 15 |
| Cash and Deposits | 7,005 | 0 | 7,005 |
| | **363,544** | **0** | **363,544** |

**9. Investment Income**

| | 2007/08 £'000 | 2006/07 £'000 |
|---|---|---|
| Income from Fixed Interest Securities | 4,345 | 4,039 |
| Dividends from equities | 5,937 | 4,921 |
| Income from pooled vehicles | 1,692 | 1,235 |
| Cash & Deposits | 363 | 287 |
| Other | 0 | (113) |
| **Other Income** | | |
| Foreign Exchange Profits/(Losses) | (651) | 110 |
| **Total Income** | **11,686** | **10,479** |

**10. Investment Management Expenses**

| | 2007/08 £'000 | 2006/07 £'000 |
|---|---|---|
| Management and custody | 999 | 1,033 |
| Advisory fees | 37 | 41 |
| Other | 117 | 121 |
| | **1,153** | **1,195** |

**11. Investments**

| | 2007/08 £'000 | 2006/07 £'000 |
|---|---|---|
| **Equities** | | |
| UK Quoted | 113,630 | 128,299 |
| Overseas | 59,547 | 64,031 |
| Futures | 170 | 148 |
| | **173,347** | **192,478** |
| **Fixed Interest Securities** | | |
| UK | 64,855 | 65,009 |
| | **64,855** | **65,009** |
| **Index-Linked Securities** | | |
| UK | 29,865 | 28,000 |
| | **29,865** | **28,000** |
| **Mortgaged Backed Securities** | | |
| UK | 0 | 0 |
| | **0** | **0** |
| **Pooled Investment Vehicles** | | |
| **UK Managed Funds - Other** | | |
| UK Quoted | 1,732 | 3,008 |
| UK Unquoted | 90 | 80 |
| Overseas | 35,642 | 32,424 |
| **UK Unit Trust** | | |
| UK Property | 27,707 | 35,525 |
| | **65,171** | **71,037** |
| **Cash Instruments** | | |
| UK | 5 | 15 |
| | **5** | **15** |
| **Other** | | |
| Asset class not identified | **0** | 0 |
| | **0** | **0** |
| **Cash Deposits** | | |
| Managers | 4,949 | 3,259 |
| Havering | 6,673 | 3,707 |
| Futures | 26 | 39 |
| | **11,648** | **7,005** |
| **Total Investments** | **344,891** | **363,544** |

**12. Net Current Assets**

| | 2007/08 £'000 | 2006/07 £'000 |
|---|---|---|
| Current Assets | | |
| Investment Income | 2,674 | 2,509 |
| Sold Assets | 4,416 | 2,087 |
| Pensions | 20 | 6 |
| Contributions | 309 | 271 |
| VAT/ UK Tax | 177 | 31 |
| | **7,596** | **4,904** |
| Current Liabilities | | |
| Purchased Assets | 3,104 | 1,569 |
| Pensions | 181 | 302 |
| Other Expenses | 294 | 429 |
| | **3,579** | **2,300** |
| **Net Current Assets** | **4,017** | **2,604** |

**13. Related Party Transactions**

There were no transactions with related parties other than those disclosed elsewhere within the accounts. In 2007/08, £0.461m was paid to the Council for administration (£0.442m in 2006/07) and £17.182m (£16.667m in 2006/07) 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 2007/08 was 21.5% 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 2007. 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 | 3.2% |
| The rate of return on bond type investments | 5.2% |
| The rate of return on equity and property assets | 7.2% |
| The level of increase in earnings growth | 4.7% |

The result of the 2007 valuation was that the value of the Fund's assets was actuarially assessed as £366.1m which was sufficient to meet 68% of its accrued liabilities of £534.6m. 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 2008 to March 2009 | 21.7 |
| April 2009 to March 2010 | 21.8 |
| April 2010 to March 2011 | 22.0 |

Havering
LONDON BOROUGH

| MEETING | DATE | ITEM |
| --- | --- | --- |
| **PENSIONS COMMITTEE** | **25 September 2008** | **7** |

**REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT**

**SUMMARY**

This report sets out the Statement of Investment principles and the Funding Strategy Statement and explains why a review is required.

**RECOMMENDATION**

1. To note the existing Statement of Investment Principles and Funding Strategy Statements appended as Appendices 1 and 2.

2. To identify potential changes and provide any comments as necessary.

3. To note that the review will take place during the forthcoming weeks, the results of which will be reported back to this Committee in November.

**REPORT DETAIL**

**1. Background**

1.1 The Pension Fund has:

- A Statement of Investment Principles (SIP) which explains the investment strategy, associated risks and other matters. This is appended as Appendix 1 and the associated Myner's compliance statement is attached at Appendix 1 (a).
- A Funding Strategy Statement (FSS) - this illustrates how the fund is operating to improve funding levels. This is appended as Appendix 2.

1.2 The last review of the SIP and the FSS was completed in December 06. It is now appropriate reviews of these documents take place having regard to the results of the 2007 triennial valuation (received March 2008) and the subsequent Investment Strategy review.

1.3 Over the last few months the Committee have been reviewing the current Investment Strategy and this has resulted in changes to the asset allocation and fund manager arrangements. As this is a material change the Authority is required to amend and publish a revised SIP (the Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 1998 and subsequent amendments S.I.1999/3259 and S.I. 2002/1852 refers).

1.4 The SIP document (Appendix 1) will require some general updating but the main areas for members to consider and amend would be the following areas:

- Fund Objective
- Investment Objective
- Asset Allocation
- Risk
- Social Environmental and Ethical Consideration

1.5 The Committee previously agreed to involve our investment advisors in drafting the revised SIP and their input will be reflected in the draft document at the November meeting.

A check is required of the Myner’s statement of compliance (Appendix 1 (a)).

The Committee should note that admitted and scheduled bodies will be asked to comment on the SIP and the Myner’s compliance statement and views can be considered at the November meeting.

1.6 It is expected that the outcome of 2007 Valuation required no changes to the FSS document (Appendix 2) and hence this would therefore not need amending. Officers are obtaining this assurance from the Funds Actuary.

The Committee should note that the admitted/scheduled bodies will be asked to comment on this document and any views can be considered at the November meeting.

**Financial Implications and risks:**

There are no financial implications or risks arising directly from this report. The review will however ensure that the Pension Fund is compliant with LGPS (Management and Investment of Funds) 1998 regulations and reduces the financial commitment on the General Fund as far as possible.

**Legal Implications and risks:**
None arising directly

**Human Resources Implications and risks:**
None arising directly

**Equalities and Social Inclusion Implications and risks:**
None arising directly

Staff Contact: Debbie Ford
Designation: Pension Fund Accountant
Telephone No: 01708 432569
E-mail address:debbie.ford@havering.gov.uk

**CHERYL COPPELL**
**Chief Executive**

**Background Papers List**

Working papers held within the Corporate Finance Section

**Appendix 1**

**STATEMENT OF INVESTMENT PRINCIPLES**
**London Borough of Havering Pension Fund ('the Fund')**

## Background

### Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to review it at least annually. They are also required to set out a Statement of Compliance with the ten Principles of Investment Management contained in the CIPFA document "Principles for Investment Decision Making in the Local Government Pension Scheme in the UK" published in April 2002.

### Purpose and Scope of Scheme

The London Borough of Havering is the administering authority for the London Borough of Havering Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS) and provides death and retirement benefits for all eligible employees and their dependants. It is a final salary defined benefit Pension Scheme, which means that benefits are payable based on the employees' final salary. All active members are required to make pension contributions which are based on a fixed percentage of their pensionable pay as defined in the LGPS regulations and currently set at 6%. Manual workers in employ before 1st April 1998 have a protected 5% rate.

The London Borough of Havering is responsible for the balance of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time (but at least triennially) by the Fund's actuary.

The London Borough of Havering has a direct interest in the investment returns achieved on the Fund's assets, but the benefits paid to pensioners are not directly affected by investment performance.

### Pensions Committee

A dedicated group of Councillors (the "Pensions Committee") has been set up to deal with the majority of the Fund's investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives of The Council who each have voting rights and Trade Union representatives who have observer status. The Pensions Committee reports to Full Council and has full delegated authority to make investment decisions. The Pensions Committee decides on the investment policies most suitable to meet the liabilities of the

Havering Pension Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy.

In particular, the Pensions Committee (the Committee) has duties that include:

- Monitoring the investment performance of the Fund on a quarterly basis.
- Determining overall strategy;
- Ensuring compliance with legislative requirements;
- Receiving the triennial valuation prepared by the Funds actuary with recommended contribution levels;
- Determining asset allocation and benchmarking;
- Appointment of Investment Managers.

The Committee is set up under the Local Government Act so that, where necessary it can exercise decision-making powers. The Committee meets four times per year to hear reports from its officers, investment managers, actuary, investment consultant and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

The Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment consultant (including specific investment advice), the actuary to the scheme and its investment managers.

The Regulations state that the administering authority must, when formulating its investment policy, have regard to the advisability of investing fund money in a wide range of investments and to the suitability of particular investments and types of investments.

**Fund Objective**

It was agreed at the then called Investment Committee Meeting of 4th April 2003 that the following be adopted as the Fund objective:

- To ensure that it has sufficient assets to pay pension benefits to scheme members as they fall due and;
- To set employer contribution rates at a level to attain 100% funding, as certified by the Fund's actuary, whilst keeping the employer contribution rate as low and as stable as possible.'

In order to lessen the burden on the employers within the Fund, the investment strategy is designed to achieve a higher return than the lowest risk strategy whilst maintaining a prudent approach to meet the underlying aims of the Fund.

**Investment Objective**

SIP Review December 2006

APPENDIX 1

It was agreed at the then called Investment Committee Meeting of 17th December 2003 that the following be adopted as the Financial Investment Objective:

'To target 100% funding on an ongoing basis by investing to achieve a return on the overall Fund of long gilts +3.6% gross p.a. (long Gilts plus 3.0% net of fees) over a ten-year time horizon, thereby reducing the likelihood of an increase to the employers' future contribution.'

This is to be achieved by targeting:

- Gilts + 1.0% p.a. in the Matching Fund (which comprises 30% of the Total fund)
- Gilts + 4.5% p.a. in the Investment Fund (which comprises 70% of the Total Fund)

**Asset Allocation**

- At the then called Investment Committee meeting on 17th December 2003, the following strategic asset allocation was approved:

| | | % |
|---|---|---|
| Property | - | 10 |
| Global High Yield Bonds | - | 10 |
| UK Equities | - | 30 |
| Global Equities | - | 20 |
| Fixed Interest Gilts } | | |
| Index-Linked Gilts } | - | 30 |
| Corporate Bonds } | | |

- The general asset allocation was based on results taken from the Asset Liability study undertaken by the Fund's actuary. The detailed allocation was taken following advice from the Fund's investment consultant.

- The Committee appointed five investment managers to implement its chosen strategy. Investment targets have been set for each manager and they are measurable over a rolling three year period as follows:

| Mandate (% of fund awarded) | Manager | Tactical Benchmark | Target |
|---|---|---|---|
| Property (10%) | UBS | HSBC All balanced (property) Fund's median | To outperform the benchmark |
| Global high Yield Bonds (10%) | Western Asset Management | Long Gilts | + 3% gross of fees |
| UK Equities (30%) | Standard Life | FTSE All Share | +2% net of fees |
| Global Equities | Alliance Bernstein | MSCI All Countries | +2.5% net of |

SIP Review December 2006

APPENDIX 1

| Mandate (% of fund awarded) | Manager | Tactical Benchmark | Target |
|---|---|---|---|
| (20%) | | Index | fees |
| Investment grade bonds (30%) | Royal London Asset Management | composite | +0.75% net of fees |

**Fees**

UBS is remunerated by a fixed management fee and the expenses inherent in the management of the pooled property fund. Royal London Asset Management and Standard Life are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management. Alliance Bernstein is also remunerated by an ad valorem scaled fee based on quarter end closing market values of the assets under management. Western Asset management are remunerated by a management fee and administrative fees and expenses deducted from the returns on the fund, as specified within its' prospectus.

**Investment Responsibilities**

**Responsibilities of the Pensions Committee**

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment consultant;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the managers' expertise and the quality and sustainability of their investment process, procedures, risk management, internal controls and key personnel;
- Reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights;
- Reviewing the investments over which they retain control and to obtaining written advice about them regularly from the investment consultant. The Committee will also obtain written advice from the Investment Consultant when deciding whether or not to make any new investments or to transfer or redistribute assets within the mandates, whether due to market movements or other factors;
- Rebalancing the assets with reference to trigger points. When the Investment Fund or the Matching Fund allocation is 5% or more

than the strategic allocation the assets will be rebalanced back to 2.5% above the strategic asset allocation. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweighted assets. The Committee will seek the written advice of the investment consultant with regard to rebalancing and detailed distribution of cash or sale proceeds.

**The Pensions Committee is advised by The Council's Executive Officers, who are responsible for:**

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;
- Investment accounting and preparing the annual report and accounts of the fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

**The Investment Managers are responsible for:**

- The investment of pension fund assets in compliance with the legislation and the detailed investment management agreements;
- Tactical asset allocation around the strategic benchmark set by the then called Investment Committee;
- Stock selection within asset classes;
- Voting shares in accordance with agreed policy;
- Preparation of quarterly reporting including a review of past investment performance, transaction costs and future investment strategy in the short and long term;
- Attending meetings of the Pensions Committee and officers of the council as required.

**The Independent Custodian is responsible for:**

- Provision of monthly accounting data summarising details of all investment transactions during the period;

- Providing investment transaction details in a timely manner to the independent performance measurers;

- Safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions;

- The separation of investment management from custody is paramount for the security of the assets of the Fund.

**The Actuary is responsible for:**

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the reporting standard FRS17;

- Advising on the rate of employer contributions required to maintain appropriate funding levels;

- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services;

- Preparing the Funding Strategy Statement.

**The Independent Measurers are responsible for:**

- Providing the Investment Committee and the Council's executive officers with comparative information on the Fund's performance relative to other funds and the relative performance of different types of investments.

**The Investment Consultant is responsible for:**

- Advising on the investment strategy of the fund and its implementation;

- Advising on the selection of investment managers, and the custodian;

- Providing investment information, investment advice[1] and continuing education to the Investment Committee and the executive officers;

- Independent monitoring of the investment managers and their activities.

[1] The Investment Consultant is authorised by and registered with the Financial Services Authority for the provision of investment advice.

The investment adviser is remunerated by way of a fixed cost retainer that covers routine monitoring and routine maintenance tasks and by agreed fixed costs on a project specification basis. From time to time a project may be undertaken which is subject to time cost fees.

**The Auditor**

- The Fund is audited annually by the Audit Commission. The financial year end is 31st March.

**The Historic Position of Fund**

The Fund is unlikely to be fully funded for several years. This has arisen for two main reasons.

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge:
- The cost of the redundancy programme in the mid 1990's.

*(Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund). In addition the withdrawal of tax relief on pension fund dividend income arising from the 1997 budget has been a further factor in delaying the achievement of full funding. The downturn in the value of equities has been a further problem, although as at November 2007, the gap has almost been recovered.*

At the last triennial valuation (at 31st March 2004) the funding ratio was 65.3%.

The Fund is obliged to prepare a Funding Strategy Statement (FSS), which is prepared by the Fund's actuary and published on the Council's web site. This outlines the method by which the Fund will return to an acceptable level of solvency. This is expected to be achieved by a combination of increased contributions to the Fund, and anticipated increased investment returns following the implementation of the new investment strategy in 2005.

**Review**

- The investment strategy is reviewed by the Pensions Committee, every three years following the actuarial valuation results and informally on an annual basis.
- The current review is based on the Actuarial Valuation 2004 and an Asset/Liability study and advice on asset allocation from the Fund's Investment Consultant in 2005

**Reporting**

The investment performance of the manager is reported to the Pensions Committee and Officers quarterly. Reports are received from the fund's performance measurers and investment consultants, along with executive summaries from each investment manager including details of any voting undertaken in that quarter.

**Risk**

In 2005, following recommendations from the 2004 Actuarial Valuation and an Asset/Liability study commissioned from the Fund's investment consultant, the then called Investment Committee agreed to diversify its investments with the objective of reducing the volatility of investment returns.

The balance of assets and anticipated returns was considered that in order to maintain the funding level the Fund would need to achieve returns equal to 1.8 per cent per annum above those on long-dated index-linked gilts. This target was viewed as consistent with the investment strategy of 70 per cent equities and 30 per cent bonds used as the basis of the 2004 Actuarial Valuation.

In order to reduce the volatility of investment returns, it was decided retain the asset mix to 70 per cent in a mixture of equities, property and alternative assets with the remaining 30 per cent in low volatility investment grade bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with reduced long-term costs for the Council.

**Investments**

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 1998. The Fund is required to invest any monies which are not required to pay pensions and other benefits and in so doing take account of the need for suitable diversified portfolio investments and the advice of persons properly qualified (including officers) on investment matters.

**Types of Investment**

In broad terms investments may be made in accordance with the regulations in equities, fixed interest and other bonds and property and in the UK and overseas markets. The regulations specify other investment instruments may be used e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts, although historically it has not been the practice of the Fund to participate in these. Any limitations on the use of these instruments will be included within the Investment management Agreements (IMA's).

The regulations also specify certain limitations on investments. Principally these place a limit of 10% of the total value of the Fund on any single holding, or deposit with a single bank or institution or investments in unlisted securities.

SIP Review December 2006

APPENDIX 1

The then called Investment Committee has set out control ranges and restrictions for the Fund's investments. These control ranges and restrictions have been considered when setting the benchmarks for each Manager.

**Investment Management**

The Investment Manager's are each bound by an investment management agreement (IMA) that takes account of:

- The benchmark set, and the allocation of assets within this benchmark;
- Cash needs;
- Risk tolerances;
- The policies on Corporate Governance and Socially Responsible Investment, given later in this document.

The Investment Manager must also select the appropriate types of investment as defined in the Regulations.

**Investment Manager Controls**

The Investment Managers are authorised and regulated by the Financial Services Authority (FSA), and must comply with the regulations contained within the Financial Services and Markets Act 2000 (FSMA 2000). Under these regulations, the manager must ensure that suitable internal operating procedures and risk frameworks are in place. FSMA is designed to provide a Fund such as this with an adequate level of protection, and the Investment Managers are obliged to meet their obligation imposed by this act.

The mandates set for the Managers contain controls to ensure compliance with best practice and regulations. Controls on cash levels and transfers of cash and assets are also set within the IMA's.

**Social Environmental and Ethical Considerations**

> 'The Pensions Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the view has been taken that non-financial factors should not drive the investment process at the cost of financial return on the Council's Pension Fund. Therefore, the Pensions Committee is of the view that there should be non-interference with the short-term day-to-day decision making of the Fund Managers.
>
> Over the longer term, the Pensions Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.'

SIP Review December 2006

APPENDIX 1

**Corporate Governance and Voting Policy**

**Corporate Governance Policy**

**'**The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.

In making investment decisions the Council will, through its Pension Fund Investment Manager, have regard to the economic interests of the Pension Fund as paramount and as such

1. Will vote at all general meetings of UK companies in which the Fund is directly invested.
2. Will vote in favour of proposals that enhance shareholder value.
3. Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.
4. Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.
5. Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Manager(s) full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

6. Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.
7. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
8. Receive quarterly information from the Investment Manager, detailing new investments made.'

**Consultation and Publication**

The Council has reviewed the Statement of Investment Principles in association with the Funds Investment Consultant and has also consulted with the employers of the fund, employee representatives and all fund managers through written correspondence.

Scheme members are informed of the publication and review process in the annual pension fund leaflet which is distributed with their Annual Benefit Statement.

A copy of this document together with the Myner's Statement of Compliance has been published on the Council's website.

SIP Review December 2006

APPENDIX 1

The Statement of Investment Principles will be reviewed at least annually and a revised version issued as soon as any significant change occurs. Any comments and suggestions will be considered. Please contact the Pension Fund Accountant with your views at info@havering.gov.uk .

**MYNERS Principles for Investment Decision Making**

The Pensions Committee will regularly review the Scheme's compliance with this Statement of Investment Principles.

The Action the Council has taken to meet the recommendations made in the Myner's report (as further discussed in the CIPFA Principles for Investment Decision Making in the LGPS has been updated in December 2006 and is attached.

SIP Review December 2006

APPENDIX 1

STATEMENT OF COMPLIANCE

APPENDIX 1 (a)

| | **MYNER'S PRINCIPLES**<br>**(Additions to the original principles below are underlined)** | **HAVERING POSITION** |
|---|---|---|
| 1. | **Effective decision-making**<br>Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.<br><br>Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. <u>Funds with more than 5,000 members should have access to in-house investment expertise equivalent at least to one full-time staff member who is familiar with investment issues.</u> Trustees should also be paid, unless there are specific reasons to the contrary.<br><br>It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus. <u>The chair of the board should be responsible for ensuring that trustees taking investment decisions are familiar with investment issues and that the board has sufficient trustees for that purpose. For funds with more than 5,000 members, the chair of the board and at least one-third of trustees should be familiar with investment issues (even where investment decisions have been delegated to an investment subcommittee).</u><br><br>Trustees should assess whether they have the right set of kills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan. | Investment Adviser appointed to advise on investment decisions.<br><br>Pension Fund Accountant provides in house support to trustees.<br><br>Quarterly meetings with Fund Managers provide close monitoring of their investment decisions.<br><br>Structured training of Members ensures that Members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund.<br><br>Policy to ensure slow turnover of Pension Committee Members facilitates continuity and helps to maintains expertise within the Committee.<br><br>Forward looking plan presented at first committee meeting of the financial year.<br>**Summary**<br>Full Compliance |
| 2. | **Clear Objectives**<br>Trustees should set out an overall investment objective for the fund that:<br><br>• represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and | After full consultation with the Council's Actuary and Investment Advisers a clear financial and therefore fully measurable investment objective for the fund has been set. |

| | **MYNER'S PRINCIPLES (Additions to the original principles below are underlined)** | **HAVERING POSITION** |
|---|---|---|
| | • takes account of their attitude to risk specifically their willingness to accept underperformance due to market conditions.<br><br>Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pensions funds, or to a market index. | **Summary**<br>Full compliance |
| 3. | **Focus on asset allocation**<br>Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds. | Review of Asset Allocation done periodically/ annually. Investment Advisers lead on the review. Fund has formulated its own asset allocation based on identified liabilities particular to the fund.<br><br>A full investment strategy review is due following the actuarial valuation results in 2007.<br><br>**Summary**<br>Currently majority compliant.<br><br>**Action**<br>New ideas need to be reviewed for example Dynamic Asset Allocation mandates, as does the position with regard to alternative investment classes, which have become more mainstream tools for pension funds. |

STATEMENT OF COMPLIANCE

APPENDIX 1 (a)

| | **MYNER'S PRINCIPLES**<br>**(Additions to the original principles below are underlined)** | **HAVERING POSITION** |
|---|---|---|
| 4. | **Expert advice**<br>Funds should contract separately for actuarial, strategic asset allocation and fund manager selection advice and these contracts should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers**.** | Contracts have been awarded separately and two advisors appointed – Investment advisor and Actuarial Advisor.<br><br>**Summary**<br>Full compliance |
| 5. | **Explicit mandates**<br>Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:<br>• an objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances:<br>• the manager's approach in attempting to achieve the objective; and<br>• clear timescale(s) for performance measurement and evaluation.<br><br>The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.<br><br>Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions. | Explicit mandates with specific benchmarks and targets over a 3 year rolling period are detailed in the SIP.<br><br>Trustees do not permit soft commissions. Equity managers report periodically on transaction costs.<br><br>**Summary**<br>Majority compliance<br><br>**Action**<br>Training will be considered for the Committee members relating to transaction-related costs commencing with self assessment. Otherwise compliant. |

STATEMENT OF COMPLIANCE

APPENDIX 1 (a)

| | **MYNER'S PRINCIPLES**<br>**(Additions to the original principles below are underlined)** | **HAVERING POSITION** |
|---|---|---|
| 6. | **Activism**<br><u>Trustees should comply with the Institutional Shareholders Committee statement of principles on the responsibilities of institutional shareholders and agents, and ensure that the principles are incorporated into fund managers' mandates. In line with the principles</u>, trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy. | Fund managers are instructed to vote in accordance with their proxy voting policies. These policies have been reviewed by Havering. Voting activity is reported on an exceptions basis and considered by the Investment Sub-Committee.<br><br>**Summary**<br>Full compliance |
| 7. | **Appropriate benchmarks**<br>Trustees should:<br>• explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;<br>• if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;<br>• consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and<br>• where they believe active management has the potential to achieve higher returns, set both target and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies. | The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a benchmark (tactical benchmark) and performance target that may be based on broad indices or composites.<br><br>This was considered as part of the full investment strategy review following the 2004 actuarial valuation.<br><br>The Committee, when setting the investment strategy, took the view that active management of particular assets does have potential to achieve higher returns and the mandates awarded to managers allow those managers to use appropriate levels of risk in order to achieve the required returns. |

STATEMENT OF COMPLIANCE

APPENDIX 1 (a)

| | **MYNER'S PRINCIPLES**<br>**(Additions to the original principles below are underlined)** | **HAVERING POSITION** |
|---|---|---|
| | | **Summary**<br>Full compliance |
| 8. | **Performance measurement**<br>Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.<br><br>Regulations that came into force on 30 December 2005 introduced a change that required that <u>the SIP should disclose the ways in which risks are to be measured and managed</u><br>(rather than simply disclosing a policy on risk) | Performance measurer reports to Committee annually.<br>The investment adviser monitors and reports quarterly on performance, personnel, process and organisational issues at fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective. The SIP has been updated to reflect this.<br><br>Annual Review of the adviser also takes place.<br><br>Committee performance is reviewed as part of an annual report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the Committee, and full compliance with governance requirements including attendance at all training sessions.<br><br>**Summary**<br>Full compliance |

STATEMENT OF COMPLIANCE

APPENDIX 1 (a)

| | **MYNER'S PRINCIPLES**<br>**(Additions to the original principles below are underlined)** | **HAVERING POSITION** |
|---|---|---|
| 9. | **Transparency**<br>A strengthened Statement of Investment Principles should set out:<br>• who is taking which decisions and why this structure has been selected;<br>• the fund's investment objective;<br>• the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;<br>• the explicit mandates given to all advisers and managers (including objective, benchmark, risk parameters, clear timescales of evaluation ; and<br>• the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected. | The SIP has been reviewed and updated as at December 2006 and now complies with a strengthened statement.<br><br>**Summary**<br>Full compliance |
| 10. | **Regular reporting**<br>Trustees should publish their Statement of Investment Principles and the results of their monitoring of their own performance, and that of advisers and managers. They should send key information from these annually to members of these funds, <u>as well as posting this on a fund website,</u> including an explanation of why the fund has chosen to depart from any of these principles. <u>It is good practice for funds with more than 5,000 members to have a website dedicated to the fund</u>. | The SIP and this statement of compliance are published on the Councils web site.<br><br>Performance monitoring reports are also published on the Council's website.<br><br>Key information including performance, SIP and the review process is communicated to members annually in the Pension Fund Leaflet which is distributed with the Annual Benefit Statements.<br><br>**Summary**<br>Majority compliance<br>**Action**<br>Although a dedicated Web site is not available information is available on the council's own website, however views will be sought from relevant stakeholders on the issue of a dedicated website. |

| MEETING | DATE | ITEM |
|---|---|---|
| **PENSIONS COMMITTEE** | **25 September 2008** | **9** |

**REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: THE PENSIONS PANEL**

**SUMMARY**

This report sets out arrangements in light of the Council restructure for the Pensions Panel.

**RECOMMENDATION**

Committee agree the arrangements for the Pensions Panel.

**REPORT DETAIL**

1. The Pensions Panel under the Constitution has the following powers:

   - To act and make decisions as a pensions panel consisting of the Group Director of Finance and Commercial, Assistant Chief Executive Human Resources and Assistant Chief Executive Legal and Democratic Services for the purposes of Stage 2 appeals within the Internal Dispute Resolution Procedure Regulations and exercising other discretions within the Local Government Pension Schemes.

   - To implement the Council's early retirement, retirement and redundancy policies.

2. The three members of the Pensions panel were ACE (Legal), ACE (HR) & Director of Finance & Commercial. As a result of the high level

restructure the new Director of Finance & Commerce now has responsibility for HR. In view of this it is proposed that the panel should now consist of ACE (Legal) , Head of Finance & Procurement and Head of HR.

**Financial Implication and risks:**

None arising directly

**Legal Implications and risks:**

This will ensure the Council Constitution reflects the current structure.

**Human Resources Implications and risks:**

The Head of Human Resources will need to attend the Panel as necessary.

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

This will ensure the Panel has a balanced Membership.

**Rita Greenwood**
**Group Director Finance & Commerce**
**01708 432218**
**rita.greenwood@havering.gov.uk**

**Cheryl Coppell**
**Chief Executive**

**Background Papers List**

None.

December 2006

APPENDIX 2

**LONDON BOROUGH OF HAVERING PENSION FUND**

## Funding Strategy Statement

### Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations). The Statement describes London Borough of Havering's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the London Borough of Havering Pension Fund (the Fund).

As required by Regulation 76A(2), the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

### Consultation

In accordance with Regulation 76A(1), all employers participating within the London Borough of Havering Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations).

The Fund Actuary, Hewitt Bacon and Woodrow, has also been consulted on the contents of this Statement.

### Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

### The Aims of the Fund

The aims of the Fund are:

December 2006

APPENDIX 2

1. To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency,
- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see 4 below)

Producing low volatility in employer contribution rates requires material investment in assets which ‘match’ the employer’s liabilities. In this context, ‘match’ means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as other equities and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

2. To ensure that sufficient resources are available to meet all liabilities as they fall due.

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority’s policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

3. To manage employers’ liabilities effectively.

December 2006

APPENDIX 2

The Administering Authority seeks to ensure that all employers' labilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Investment Committee Members are properly informed, and through regular monitoring of the funding position.

4. To maximise the income from investments within reasonable risk parameters.

   The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

   - restricting investment to the levels permitted by the Investment Regulations.
   - restricting investment to asset classes generally recognised as appropriate for UK pension funds.
   - analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

## Purpose of the Fund

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.
2. To receive monies in respect of contributions, transfer values and investment income.

## Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Scheme Actuary.

Their key responsibilities are as follows:

### Administering Authority

The Administering Authority's key responsibilities are:

1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

   Individual employers must pay contributions in accordance with Regulations 79, 80 and 81 of the LGPS Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. The contributions to the Pension Fund are monitored and processed by the Pension Administration team. If contributions are received more than a month after payment is due, interest will be charged at the rate of 1% above the bank base rate.

The Administering Authority will ensure that action is taken to recover assets from Admitted Bodies whose Admission Agreement has ceased by:

- requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement
- notifying the Admitted Body that it must meet any deficit at the cessation of the Agreement .

2. Invest surplus monies in accordance with the regulations.

The Administering Authority will comply with Regulation 9 of the Investment Regulations.

3. Ensure that cash is available to meet liabilities as and when they fall due.

The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. Manage the valuation process in consultation with the Fund's actuary

The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and provision of valuation results
- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the Funding Strategy
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by Guidance and Regulation

5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. Monitor all aspects of the Fund's performance and funding and amend these two documents if required.

The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis. The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

December 2006

APPENDIX 2

**Individual Employers** will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
3. Exercise discretions within the regulatory framework.
4. Pay for added years in accordance with agreed arrangements.
5. Notify the administering authority promptly of all changes to membership, or other changes which affect future funding

**The Fund Actuary** will:

1. Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.

   Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Institute and Faculty of Actuaries, to the extent that the Guidance Note is relevant to the LGPS.

2. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

   Such advice will take account of the funding position and Strategy of the Fund, along with other relevant matters.

## Solvency

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions.

'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available on long term fixed interest and index linked gilt edged investments.  The Administering Authority has also agreed with the Fund Actuary that the assumptions will make partial allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement. It is unlikely that use of these smoothing adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example, an employer admitted by virtue of having been awarded a best value outsourcing contract).

## Funding Strategy

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 30 years. The Administering Authority's policy is to agree recovery periods with each employer which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

## Identification of risks and counter measures

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

Demographic

The main risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

Regulatory

The risks relate to changes to regulations, National pension requirements or Inland Revenue rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial

This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to regularly assess such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

Smoothing

The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. The Administering Authority's policy is to review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits to ensure that it does not alter the disclosed solvency level by more than 5%.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 30 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, to six annual steps.

**Links to investment policy set out in the Statement of Investment Principles**

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this Statement.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

## Future monitoring

The Administering Authority plans to formally review this Statement as part of the triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Actuary whether any significant changes have arisen that require action.

December 2006

APPENDIX 2