



Havering

L O N D O N B O R O U G H

PENSIONS COMMITTEE

AGENDA

7.30pm

Tuesday,
30 June 2009

Havering Town Hall,
Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group

(4)

Robby Misir (Chairman)

Eric Munday (Vice Chairman)

Robert Benham

Melvin Wallace

Residents' Group

(2)

Clarence Barrett

Linda Van den Hende

Independent

Residents (1)

Jeffrey Tucker

Trade Union Observers

(No Voting Rights)

(2)

Brian Long (Unison)

Sean Ramsden (TGWU)

Admitted / Scheduled Bodies Representative

(No Voting Rights)

(1)

David Holmes

For information about the meeting please contact:

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NOTES ABOUT THE MEETING

1. HEALTH AND SAFETY

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

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

2. MOBILE COMMUNICATIONS DEVICES

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

3. CONDUCT AT THE MEETING

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

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

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

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

AGENDA ITEMS

1. CHAIRMAN'S ANNOUNCEMENTS

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

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

3. DECLARATION OF INTERESTS

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

4. MINUTES OF THE MEETING

To approve as a correct record the minutes of the meeting held on 19 May 2009 and authorise the Chairman to sign them

5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2009 – report attached

6. UNITED NATIONS PRINCIPLES OF RESPONSIBLE INVESTMENT (UNPRI) INITIATIVE – oral report

7. URGENT BUSINESS

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

Cheryl Coppel
Chief Executive

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

19 May 2009 (7.30pm – 9.00pm)

Present:

COUNCILLORS

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

Residents' Group Clarence Barrett

Apologies for absence were received from Councillors Linda Van den Hende and Jeffrey Tucker, and David Holmes.

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

There were no declarations of interest.

38. MINUTES

The minutes of the Committee meeting held on 17 March 2009 were agreed as a correct record, and signed by the Chairman.

39. PENSION FUND OVERVIEW

The Group Director Finance and Commerce introduced the report explaining that given the market situation it was important that the Committee considered the three key matters which were highlighted in bold in the report and to ensure that the minutes reflected the deliberations particularly given the opportunity cost of holding cash. She explained the market had rallied but there were two schools of thought re the cause of this. The first is a recovery has commenced, whilst the second is that it is a reaction to the better year end results than predicted and the recovery still has to happen. The former would support a need to invest the cash as per the strategy whilst the latter would suggest caution should still be exercised.

The other consideration was that Royal London has expressed some surprise that the reduction in Bonds would be from indexed linked bonds given the concerns of future inflation and the National Budget strategy. The Pension accountant then updated the Committee on the current valuation which illustrated the better market performance.

The Adviser then introduced his report, explained the rationale behind reducing index linked and advised that they did however understand the concern and would look at that again before the need to reduce Bonds.

Having considered all the advice the Committee agreed with the principle of edging back into the market. The Committee accepted that in view of the continuing volatility of the market it would be prudent not to re-invest all the cash at one go and that decisions should be driven by asset class not by Fund Manager.

In light of the above the Committee agreed as follows:

1. To release £2.5m each to Standard Life and Alliance Bernstein;
2. To release £2.5m to UBS to invest in line with the current portfolio;
3. To roll over the £3.8m, with the Debt Management Board, until 30 June 2009;
4. To authorise Hymans to prepare for the next stage in investigating options for appointment of a diversified alternatives manager. Members also agreed to maintain in the Statement of Investment Principles (SIP) regarding Alternatives.
5. To authorise Hymans to investigate how the Pension Fund might best introduce a Passive Manager to sit across both UK and Overseas Equities and the impact this may have on the strategy objectives.
6. Noted the amended version of the Statement of Investment Principles

40. FLEXIBLE RETIREMENT AND OTHER DISCRETIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

Further to minute 15 of the meeting held on 4 November officers had explored the benefits of any waiving of the discretion of flexible retirement as part of the Human Resources Strategy. Officers had spoken to other local authorities and it appears that very few authorities are considering waiving any reduction in benefits.

There are a number of advantages for employers in allowing flexible retirement:

- Allowing older employees to reduce their hours or grade and continue working may improve the health, motivation and productivity of the workforce.
- It will underpin the Council's commitment to avoiding age discrimination and mitigate recruitment difficulties which may be associated with an ageing population.
- It also allows for a more pro-active approach to succession planning.

It is difficult to say what extent the facility might be taken up and therefore what costs might be employed.

The Committee **agreed** that

1).the discretion of flexible retirement be exercised on an actuarially reduced basis unless:

- a). The regulations prevent reduction; or

- b). There is an exceptional case.
- 2) Any exceptions be agreed by the Pensions Committee having taken the advice of the Group Director Finance and Commerce and after consultation with the Head of Service and appropriate Cabinet member.

In discussion with other authorities it was apparent that few operate an abatement policy. There are currently only two such cases in the Council, and the cost to the Council is negligible. Having considered the officers report the Committee **agreed** to continue with the existing abatement policy and **approve** the policy statement attached to the report.



MEETING

DATE

ITEM

PENSIONS COMMITTEE

30 June 2009

5

REPORT OF THE CHIEF EXECUTIVE

**SUBJECT: PENSION FUND PERFORMANCE MONITORING FOR THE
QUARTER ENDED 31ST MARCH 2009**

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 2009. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 31st March 2009 was **-7.1%**. This represents an outperformance of **0.8%** against the combined tactical benchmark and an underperformance of **-3.4%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31st March 2009 was **-25.4%**. This represents an underperformance of **-8.0%** against the annual tactical combined benchmark and an underperformance of **-33.1%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007 and further market crisis in the financials sector led to more market falls during 2008. This quarter saw equity markets continuing to fall during January and February as global economic activity was weak. March did see a rally but not enough to recoup losses earlier in the quarter. Banks and governments activity remained proactive. The Bank of England cut interest rates to 0.5% and introduced quantitative easing, which boosted short-dated government bonds. Property returns also continued to fall.

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 Global Equities Manager (Alliance Bernstein).
- 3) Notes the summary of the performance of the Pension Fund within this report.
- 4) Considers the quarterly reports provided by each investment manager.
- 5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
- 6) Considers any points arising from officer monitoring meetings (section 5 refers).
- 7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refer).
- 8) Notes the following within other matters (section 4 refers):
 - a) actions taken in respect of State Street and its current position.
 - b) The results of the credit check on the fund managers.
 - c) Actions taken in respect of the investment strategy.
- 9) Notes that units on the secondary market are being procured as agreed with the chair.
- 10) Considers any necessary actions.

REPORT DETAIL**1. Background**

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

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

1.3 Individual manager performance and asset allocation will determine the outperformance against the strategic benchmark. Each manager has been set

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

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target (net of fees)
Standard Life 30%	UK Equities	FTSE All Share Index	2%
Alliance Bernstein 30%	Global Equities	MSCI All World Index	2.5%
Royal London Asset Management (RLAM) 30%	Investment Grade Bonds	<ul style="list-style-type: none"> • 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index 	0.75%
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Alternatives (possibly 5%)	Alternatives	Not yet appointed and kept under review until the market settles	

- 1.4 The bond mandate with Western Asset was terminated on the 1st August and cash is being transferred in stages to Alliance Bernstein. The allocation to Royal London will remain at 30% until a decision has been made with regard to investing in an alternative asset class in which it will then be reduced to 25% to fund an investment in alternatives.
- 1.5 UBS manage the assets on a pooled basis. Standard Life, Royal London and Alliance Bernstein manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.
- 1.6 Since the Quarter 3 (September 06) Report, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).
- 1.7 Managers are invited to present at the Pensions Committee Meeting every 6 months. On alternate dates, they meet with officers for a formal monitoring

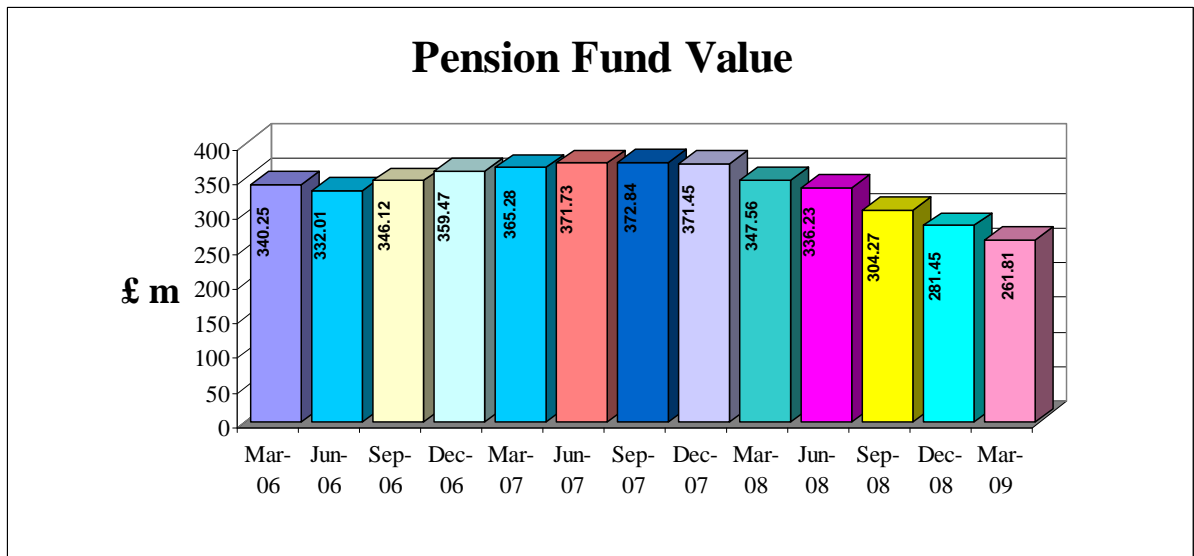
meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. Managers who are to make presentations to this Committee are:

- Global Equities Manager (Alliance Bernstein)

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 31st March 2009 was **£261.81m**. 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 £281.45m at the 31st December 2008; a decrease of (**£19.6m**). The decrease in the fund value is attributable to fund performance, resulting in a decrease of (£20.5m) and an increase in internal cash of £0.9m. The internally managed cash level totals **£8.1m**, of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of £8.1m follows:

CASH ANALYSIS	2006/07	2007/08	2008/09
	£000's	£000's	£000's
Balance B/F	-3052	-3706	-6673
Benefits Paid	20886	22852	23879
Management costs	1592	1869	1724
Net Transfer Values	-1341	-2520	172
Employee/Employer Contributions	-23536	-24922	-26620
Cash from/to Managers	1945	0	-318
Internal Interest	-200	-246	-241
Movement in Year	-654	-2967	-1404
Balance C/F	-3706	-6673	-8077

2.3 In addition to the internally managed cash above, the fund had £11.3m cash on deposit. At the committee meeting on the 19 May 09 members agreed to roll over the £3.8m on deposit with the Treasury's Debt Management Office until the 1 July 09 and the remaining £7.5m was to be split equally between Global Equities Manager, UK Equities Manager and the Property Manager. On the 20th May 09 £2.5m was transferred to each of the equity managers. The remaining £2.5m is currently placed with Havering's Treasury Management pending transfer to the Property Manager. As agreed with the Chair units will be purchased on the secondary markets and officers are currently in liaison with UBS.

3. Performance Figures against Benchmarks

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

	Quarter to 31.03.09	12 Months to 31.03.09	3 Years to 31.03.09	5 years to 31.03.09
Fund	-7.1%	-25.4%	-9.3%	0.4%
Benchmark return	-7.8%	-18.9%	-5.8%	2.3%
*Difference in return	0.8%	-8.0%	-3.7%	-1.9%

Source: WM Company

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

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

	Quarter to 31.03.09	12 Months to 31.03.09	3 Years to 31.03.09	5 years to 31.03.09
Fund	-7.1%	-25.4%	-9.3%	0.4%
Benchmark return	-3.8%	11.5%	7.1%	9.4%
*Difference in return	-3.4%	-33.1%	-15.3%	-8.2%

Source: WM Company

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

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

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

QUARTERLY PERFORMANCE (AS AT 31st MARCH 2009)

	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	-7.2	-9.7	-5.7	-9.8
Benchmark	-9.1	-10.4	-3.9	-7.3
*Over/(Under) Performance vs. Benchmark	2.1	0.8	-1.8	-2.7
TARGET	-8.6	-9.8	-3.7	n/a
* Over/(Under) Performance vs Target	1.5	0.1	-2.1	n/a

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

ANNUAL	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	-37.7	-31.4	-6.5	-31.8
Benchmark	-29.3	-21.1	-2.8	-26.2
*Over/(Under) Performance vs. Benchmark	-11.9	-13.1	-3.8	-7.6
TARGET	-27.3	-18.6	-2.05	n/a
* Over/(Under) Performance vs Target	-14.3	-15.8	-4.5	n/a

Source: WM Company, Fund Managers and Hymans

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

4. Other matters to note

- 4.1 State Street - Assets held by State Street on our behalf are held separately from State Street assets as ownership remains with the Pension Fund. However cash deposits held with State Street are subject to a level of risk associated with their credit rating just like other banks. Credit Ratings are opinions of credit risk with an AAA rating being the highest and C being the lowest.

Given the current volatility within the global financial markets State Street's credit rating is being closely monitored. In January ratings issued by Fitch downgraded State Street to AA- and were put on a negative watch. At the time of writing this report the negative watch had been removed and the outlook on the long-term rating is stable.

£3.8m in cash was withdrawn from State Street in February and placed on cash deposit with the Treasury's Debt Management Board.

- 4.2 Credit checks – have been undertaken on our Fund Managers by Havering's Business Development Unit, the outcome of which means they have been categorised as a high risk. Members should be aware that the funds assets are safeguarded as ownership is with the Havering Pension fund (held in trust via State Street). However the risk to the Fund would be the costs involved in finding a replacement Fund Manager should any of these companies fail and there may be a dip in performance if key personnel left the companies due to its instability.

4.3 Investment Strategy Update –

Following on from the Pensions Committee meeting on the 19 May 09 members requested Hymans to consider the following:

a) Alternatives – members temporarily postponed allocating funds to an alternative manager due to the economic climate and volatility in the markets generally. The current strategy does state that the asset allocation “...is subject to review pending further investigation into effective ways for gaining access to alternative investments and a return to less volatile market conditions”. Members agreed to maintain this statement but also agreed to instruct Hymans to consider options for advertising for an alternative manager.

b) Index Linked Bonds Reduction – The Fund’s Bond weighting in Index Linked Bonds was to be reduced to fund alternative investments. Members have requested Hymans to re-consider whether Index Linked Bonds is the most appropriate asset to reduce in light of quantitative easing and the likely future impact of inflation.

c) Passive Management – Members have requested Hymans to assess the impact on the Investment Strategy objectives if members decided to appoint an equities passive manager.

An update on these issues will be provided by Hymans at the meeting.

5. Fund Manager Reports

5.1. UK Equities (Standard Life)

- a) In accordance with agreed procedures officers met with representatives from Standard Life on the 13 May 09 at which a review of the quarter 1 performance was discussed.
- b) The value of the fund as at 31st March 2009 decreased by 7.13% since 30 December 2008. As at the end of May 09 the fund has seen an increase of 25% since March 09.
- c) Standard Life out performed the benchmark in the quarter by 2.1% and out performed the target in the quarter by 1.6%. Since inception they have underperformed the benchmark by -2.4% and underperformed the target by -4.3%.
- d) Contributors to performance were in mining, travel and leisure and General Retail. The mining sector rallied on the back of financial stimulus packages, especially China. In Travel and Leisure corporate activity constrained capacity

keeping prices strong. There was better than expected trading in General Retail.

- e) Negative performance was in the Life Insurance sector and Oil & Gas producers. Attributable to Life Insurance was a change in accounting standards and concerns over capital surpluses. The Oil & Gas producers sector is strong despite falling gas and oil prices.
- f) Top stock contributors were Xstrata, Barclays and Rio Tinto.
- g) Bottom stock contributors were Aviva, BG Group and BHP Billiton.
- h) The portfolio activity during Quarter 1 were as follows :
 - o Purchased Mining stocks (Rio Tinto) , Property (Hammerson and , British Land) and Retail (DSG International and Next)
 - o Sold stocks in the Banking sector (reduced to neutral post Lehman bankruptcy and subsequent capital issues) and Oils (BP).
- i) Standard Life was asked about the expectation for dividend cuts. They believe that dividends will be cut where there is pressure to pay off debt but going forward as earnings pick up dividends will come back.
- j) It was discussed with Standard Life as to whether their equity process was permanently biased towards cyclical and they explained that it was partly cyclical and partly based on valuation.
- k) January and February were poor months and although the markets rallied in March they believe that this was due to better than expected published balance sheets and there is a possibility that there will be a drop again before the markets reach the bottom.
- l) Standard Life was asked about what they had changed over the 12 – 18 months in regard to their investment process including the process used in screening stocks. Although there are no fundamental changes in their process i.e. they still have face to face meetings but have learnt that they need to check the risk on individual investments. They have introduced a winners list but believe that the Matrix system they use would not have picked up on the financial crisis.
- m) There were no governance or whistle blowing issues to report.

5.2. Global Equities (Alliance Bernstein)

- a) Representatives from Alliance Bernstein are to make a presentation at this Committee, therefore a brief overview of the quarter 1 performance follows:

- b) The Market Value of their portfolio has decreased by 9.8% since December 08. As at the end of May 09 the fund has seen an increase of 8% since March 09.
- c) In Quarter 1 they out performed the benchmark by .8% (net of fees) and underperformed the target by -6.5 % (net of fees). Since inception they are - 3.3% below benchmark (net of fees) and -5.7% below the target (net of fees).
- d) The redemption monies from the sale of the Western mandate were to be transferred to Alliance Bernstein in stages. Members postponed the third instalment due to the market conditions and placed the cash on deposit. As agreed by members on the 19th May 09 a further £2.5m was transferred to avoid missing opportunities in the market.

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

- a) In accordance with agreed procedures officers met with representatives from Royal London on the 13 May 09 at which a review of the quarter 1 performance was discussed.
- b) The value of the fund as at 31 March is £89.237m a decrease of 5.8% since December 08.
- c) Royal London underperformed the benchmark for the quarter by -1.8% and - 2.0% against the target. Since inception they are -2.3% below the benchmark. The underperformance reflected adverse stock and yield curve decisions within the portfolio. As at the end of April the fund saw an out performance against the benchmark of .92%.
- d) Members agreed a change to our portfolio that allows bonds to be held if they are downgraded after purchase to below investment grade BBB-. This means that Royal London would avoid having to be forced to sell those downgraded bonds. Royal London has been granted some flexibility over the disposal of these bonds during a period where it is expected a higher than usual numbers of bonds are being downgraded. It will not be permitted to allow purchase of bonds below BBB- only to have some flexibility when to sell if downgraded.
- e) The bonds that were downgraded since this arrangement have been included in the Fund Manager's quarterly report. Royal London believes that it was the right decision to hold on to the downgraded bonds but is looking at opportunities to sell if they think the money can be used for better opportunities. Royal London also explained that they only use credit agencies as first call but they do their own research as to whether they are default or senior bonds.
- f) Asset allocation of the fund during the quarter was 48.8% Sterling Credit Bonds, 32% UK Index Linked, 17.2% UK Conventional Government Bonds

and 2% cash. The Fund maintained a small overweight in UK conventional government bonds with marginal underweights to UK index linked and credit bonds.

- g) All bond classes underperformed with the main detractor from performance coming from corporate bonds.
- h) The main detractor from performance was attributable to the introduction of quantitative easing in which the Bank of England intended to buy back medium dated UK conventional bonds which led to a sharp underperformance of ultra long dated bonds.
- i) The overweight position to Tier 1 financial debt was negative as was the underweight position in supranational debt.
- j) The Fund retained an underweight position to index linked gilts. This was a negative factor.
- k) Royal London activity during the quarter as follows:
 - o Reduced duration towards the end of the fourth quarter
 - o Increased exposure to index linked bonds
 - o Increased exposure to non cyclical names through new issues – Scottish & Southern, Circle Anglia
 - o Bought covenanted issues – Fontera
 - o Increased exposure to asset backed securities – Equity Release finance
 - o Sold Index linked/ reduced duration in April after strong performance to lock in profit.
- l) Royal London was again asked about why they were so underweight in supranationals. Royal London had always believed that these bonds were too expensive and the returns were not compensation for the risk in holding these bonds. Whilst they have admitted that this cost the fund over the last 18 months but in the last four weeks have seen these bonds underperforming against the credit bonds.
- m) There were no governance or whistle blowing issues to report.

5.4. Global High Yield Bonds (Westerns)

- a) The Westerns mandate was terminated on the 1 August 2008.

5.5. Property (UBS)

- a) The value of the UBS Triton Property Fund as at 31 December has seen a decrease of 21.7 % since December 08.
- b) UBS underperformed the benchmark in the quarter by -2.5% and underperformed the benchmark by -5.6% over the last 12 months.

- c) A number of factors are detracting from performance; the continued lack of valuation consensus in the UK market, the impact that large cash or debt positions can have on the fund and UBS's above average exposure to empty space.
- d) UBS believe that whilst the market remains challenging, they believe the deals they have completed show commitment and ability to secure new occupants.
- e) During the quarter they sold an office for £5.2m. The proceeds were used to meet redemption requests and to reduce debt position. They have made progress on several asset management transactions including 3 additional lettings and 2 renegotiations.
- f) The Fund Director, Richard Tanner decided to leave UBS. UBS have implemented some changes to roles and responsibilities which have no impact on their investment philosophy or process on fund strategy.
- g) Officers are currently in liaison with UBS regarding purchasing units on the secondary markets following member's decision to invest £2.5m in the property market. Purchasing units via the secondary market will mean that the Fund will be able to purchase at a potentially lower cost than if buying in the primary market.

6. 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

- 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
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E-mail address: debbie.ford@haverling.gov.uk

CHERYL COPPELL
Chief Executive

Background Papers List

Standard Life Quarterly report to 31st December 2008

Alliance Bernstein Quarterly report to 31st December 2008

Royal London Quarterly report to 31st December 2008

Western Asset Quarterly report to 31st December 2008

UBS Quarterly report to 31st December 2008

The WM Company Performance Review Report to 31st December 2008

Hyman's Monitoring Report to 31st December 2008