PENSIONS COMMITTEE

AGENDA

7.30pm	**Wednesday, 30 September 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 30 June and 6 August 2009 and authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2009– report attached

6. 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 Coppell
Chief Executive

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

30 June 2009 (7.30pm – 9.05pm)

Present:

COUNCILLORS

Conservative Group	Melvin Wallace (in the Chair), *Ted Eden and #Lynden Thorpe.
Residents' Group	+Ray Morgon
Independent Residents	Jeffrey Tucker

Apologies for absence were received from Councillors Robby Misir (*substitute Councillor Ted Eden), Eric Munday (#substitute Councillor Lynden Thorpe), Robert Benham, Clarence Barrett (+substitute Councillor Ray Morgon) and Linda Van den Hende, 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.

1. MINUTES

The minutes of the Committee meeting held on 19 May 2009 were agreed as a correct record, and signed by the Chairman.

2. PENSION FUND PEFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2009

The representative from Hymans Robertson advised the Committee that the first quarter of 2009 had provided no relief to the gloomy events of 2008. Equity markets fell sharply as the global economic background deteriorated. Governments around the world provided further support to their respective banking sectors, various initiatives were taken to stimulate economic activity and the US auto industry came close to bankruptcy.

In the UK, the scale of the country's economic decline was quantified by the sharpest fall in economic activity in nearly thirty years, dashing any hope of a speedy recovery and raising fears of a prolonged rise in unemployment. In the first quarter of 2009 the economy contracted by 1.9%. Coming after a fall of 1.6% in the final three months of 2008, the data confirmed the depth of the recession. In response, the Bank of England cut short-term interest rates, in three stages, from 2% to 0.5%.

Alliance Bernstein had a fairly strong quarter, finally putting an end to a run of underperformance since the second half of 2007.

(a) Alliance Bernstein (AB)

The last time AB had made a presentation to the Committee there was lots of fear in the market. Anxiety had reduced but was still high; there was, therefore, a similar level of opportunity. 2008 was very disappointing but in 2009 the growth blend had outperformed value in quarter 1. Stock selection had been crucial in this period with analysts looking at individual stocks against their peers rather than taking a view on the sector. The changes they had introduced had been effective i.e. the sell signal tool they had introduced encouraged them to sell stocks in a particular company which if they had held on to the stock longer would have meant they took a significant hit on the stock.

AB felt that the bounce they had seen in the market in March/April was lead by the comforting thought that things were not getting worse. The price of credit had dropped and the volume of business was increasing. Amongst the new tools introduced were stress tests for financial institutions balance sheets. Portfolios were extremely cheap and the opportunity was there to cherry pick across the sector.

AB answered all questions asked by the Committee and confirmed that there were no governance issues this quarter.

b) Miscellaneous

The Committee noted that the £2.5m it had agreed to place with UBS had been placed with Havering's Treasury Management pending transfer to UBS. On being advised of significant changes in key personnel at UBS the Committee **agreed** to hold on to the £2.5m and reinvest it with the Treasury's Debt Management Office pending any further investment strategy decisions and until the matter can be discussed with UBS.

Officers advised the Committee that the negative watch on State Street's credit rating had been removed and the outlook on the long-term rating was stable. Credit checks had been undertaken on the four fund managers by the Council's Business Development Unit, the outcome of which meant they had been classified as high risk. The Committee was informed that the funds assets were safeguarded as ownership was with the Havering Pension Fund (held in trust via State Street) The risk to the fund would be the costs involved in finding a replacement Fund Manager should any of the companies fail and there could be a drop in performance if key personnel left the companies due to instability.

Following the meeting held on 19 May 2009 Hymans Robertson had prepared reports to:

a) Consider options for advertising for an alternatives manager;

b) Reconsider whether Index Linked Bonds were the most appropriate asset to reduce in the light of quantitative easing and the likely future impact of inflation; and

c) Assess the impact on the Investment Strategy objectives if the Committee decide to appoint an equities passive manager.

The Committee **agreed** to defer consideration of these reports until the next meeting. They further **agreed** that a special meeting be called for early August to consider these reports.

3. UNITED NATIONS PRINCIPLES OF RESPONSIBLE INVESMENT (UNPRI) INITIATIVE

Having considered the request from UNISON to join a collaborative engagement through the UN PRI Clearinghouse the Committee reiterated its position, as set out in the Statement of Investment Principles, which was that it required the Fund's Investment Managers to consider the social and ethical codes of every company as part of the investment processes and that the day to day management of funds was at the discretion of the investment managers.

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

6 August 2009 (7.30pm – 9.31pm)

Present:

COUNCILLORS

Conservative Group	Robby Misir (in the Chair), Robert Benham, Eric Munday and Melvin Wallace
Residents' Group	Clarence Barrett and *Ray Morgon
Independent Residents	Jeffrey Tucker

Apologies for absence were received from Councillor Linda Van den Hende (*substitute Councillor Ray Morgon) and Brian Long.

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.

4. PENSION FUND INVESTMENT STRATEGY

Hymans Robertson (HR) attended the meeting to provide advice on the possibility of switching a portion of the Fund's assets into a passive equity fund and to suggest a timetable for commencing a search for an investment manager to manage the Pension Fund's proposed allocation to alternative assets.

Before dealing with these matters HR advised the Committee of the latest position of the Fund Managers at the end of quarter 2. The markets had staged a strong recovery in the 2nd Quarter and the value of the fund stood at £283.7m at the end of June. Equities had seen a further upward movement of around 7% in July.

Standard Life had shown a strong recovery outperforming the benchmark by 6%. Royal London had also shown a strong recovery. Both Alliance Bernstein and UBS had performed broadly in line with the market. As a result the Fund has benefited but as yet it is still just recovering the loses suffered last year.

The Pension Fund currently has 100% of its assets managed on a active basis. Passive (index-tracking) managers have the sole objective of matching the performance of a particular benchmark rather than outperforming it. A passive manager will maintain a portfolio that holds securities in equal weights to the benchmark and then perform the necessary 'housekeeping' on the fund.

Passive management is less inexpensive than active management. Taking the management fee and transaction costs together, the annual costs were typically around 0.2% p.a. though this depends largely on the target index (or indices). Active managers' fees are typically higher because there is an expectation of added values. The additional 'active' fees are required to pay the salaries of investment analysts and portfolio managers and to support the infrastructure required for active management. The fee differential between active and passive management is likely to be in the range 0.25% to 0.5% p.a. depending on the size and type of mandate.

By opting to go down the route of switching some assets to a passive manager the Fund would reduce risk but limit the return potential.

Having considered the pros and cons of switching some of the funds assets to a Passive Manager the Committee **agreed**, by a majority vote, to start the process by advertising for a Passive Manager utilising the OJEU 'open' procedure. Wording of the advert will be on the basis of a 10% to 15% value of the fund's assets and will be a phased investment. The overall asset allocation to Equities will not change, funding of the passive manager will come from reducing active holdings in UK Equities by 10% and Overseas Equities by 5%.

The Committee had previously agreed to search for a Diversified Alternatives Manager and it was now **agreed**, by a majority vote, to go out to advertisement utilising the OJEU 'open' procedures. Wording for the advert will also include that it will be a pooled fund vehicle only.

The Committee also **agreed** to invite Standard Life prior to the next meeting to make a training presentation on their Alternatives Fund.

5. DCLG CONSULTATION – LOCAL GOVERNMENT PENSION SCHEME DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS

On the 25 June 2009 the DCLG had issued the above informal consultation which begins a series of steps to consider possible amendments which initially focus on scheme stability and viability. This consultation set out initial suggestions as a feasible and balanced response to the current stock market impacts on pension fund liabilities likely to be identified in the forthcoming 2010 valuation exercise.

The consultation suggested two alternative approaches to meeting long term solvency via either financing plans or local funding targets and included changes to employee contribution rates.

The proposals for Financing Plans were already covered in the Fund's Investment Strategy. Accordingly, the Committee decided to make an appropriate response that these additional plans were unnecessary. With regard to Local Funding Targets the Committee was advised that the fund had not been at 100% for a number of years and this had not caused any problems in ensuring that pensions liabilities had been met. Officers felt there was some merit in this approach provided that guidance on both maximum and minimum targets was set.

The proposals for a revised Employee Contribution Tariff which would require higher earners to pay more into the scheme. The Committee felt that it was inevitable that employees would have to increase the level of their contributions if the level of proposed benefit was to be maintained.

The Committee asked officers to draft a response around their support for the concept of Local Funding Targets and increases in the level of contribution from higher wage earners, and to reject the proposed Financing Plans. This response would be formally agreed at the next meeting of the Committee on the 30th September 2009 although it would be agreed with the Chairman in advance to meet the DCLG's deadline..

6. INVESTORS IN HOUSING FUND.

Prior to our last meeting representatives of the Mill Group had attended to provide **a**n informal briefing **regarding their Investors** i**n Housing Fund.** Following the presentation officers have been speaking to Hymans Robertson, the Funds Investment Advisers, and drafting a series of follow up questions to send to the Mill Group. In the interim legal advice has been sought. The presentation and draft questions will be circulated to members with the intention of being able to formulate a response for consideration by the Committee at the next meeting on 30 September 2009.

MEETING	DATE	ITEM
PENSIONS COMMITTEE	30 SEPTEMBER 2009	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 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 30th June 2009 was **8.2%.** This represents an outperformance of **1.9%** against the combined tactical benchmark and an outperformance of **9.1%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30th June 2009 was **-16.3%**. This represents an underperformance of **-4.5%** against the annual tactical combined benchmark and an underperformance of **-25.8%** 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 latest quarter saw markets continuing to rally from March into April and May, erasing some of the losses from the early part of the year. Interest rates remain at 0.5%.

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 Bonds 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 (section 5 refers).
7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refer).
8) Considers any necessary action with regard to the funds cash position (paragraph 2.4 refers).
9) Notes the following within other matters (section 4 refers):
   a) Actions taken in respect of the investment strategy (Paragraphs 4.1 a, b and c refers).
   b) Actions taken in respect of the CLG consultation paper (paragraph 4.2 refers.)
   c) the results of the annual performance review presented by WM Performance measurers (Paragraph 4.3 refers)
10) Considers any necessary actions with regard to the Mill Group (paragraph 4.1 d refers).

REPORT DETAIL

1. Background

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

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	• 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 was 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).

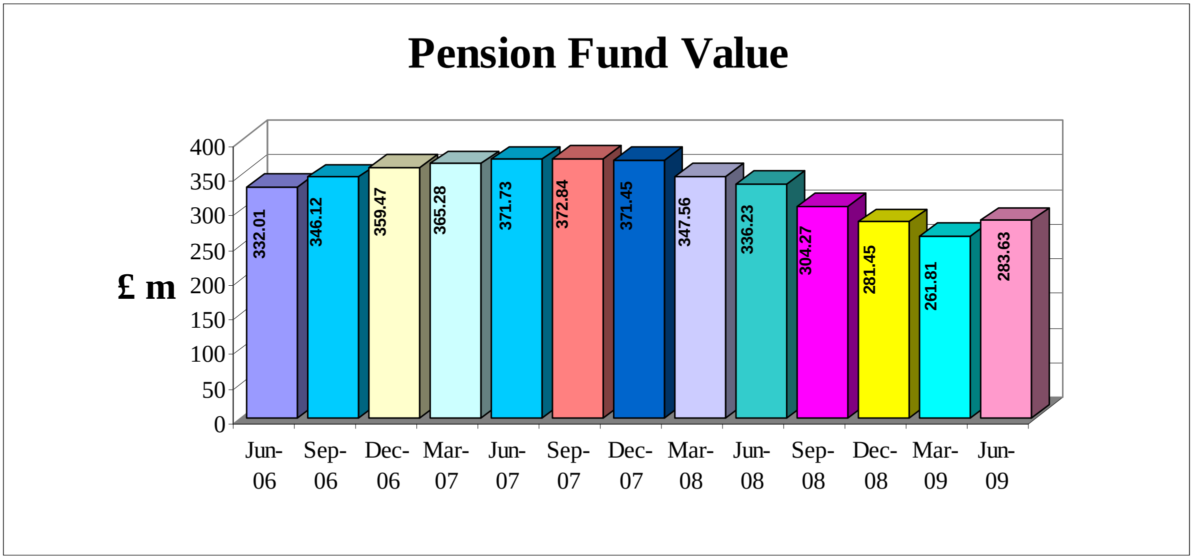
1.7 Managers are invited to present at the Pensions Committee Meeting every 6 months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions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

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

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

2. <u>Fund Size</u>

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30th June 2009 was **£283.62m**. 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 £261.81m at the 31st March 2009; an increase of **£21.81m.** The increase in the fund value is attributable to fund performance, resulting in an increase of £29.3m and a decrease in internal cash of £7.5m. The internally managed cash level totals **£10.6m**, of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of £10.6m follows:

CASH ANALYSIS	2007/08	2008/09 (Revised)	2009/10
	£000's	£000's	£000's
Balance B/F	**-3706**	**-6673**	**-7999**
Benefits Paid	22852	23878	6407
Management costs	1869	1742	415
Net Transfer Values	-2520	156	-342
Employee/Employer Contributions	-24922	-26546	-6583
Cash from/to Managers	0	-315	-2521
Internal Interest	-246	-241	-12
Movement in Year	**-2967**	**-1326**	**-2636**
Balance C/F	**-6673**	**-7999**	**-10635**

2.3 In addition to the internally managed cash above, the fund has £3.8m cash on deposit with the Treasury's Debt Management Office (DMO) until 1st October 09. This brings the cash position to **£14.4m.**

2.4 On the 1st July 09 £2.5m was additionally transferred from internally managed cash to the DMO following member's decision at the 30 June meeting. Total on deposit with the DMO until 1st October is now £6.3m. (Internally managed cash then reduced to £8.1m in July). **Members will need to give consideration as to whether to continue to place this cash on deposit pending any further strategy changes.**

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 30.06.09	**12 Months to 30.06.09**	**3 Years to 30.06.09**	**5 years to 30.06.09**
Fund	8.2%	-16.3%	-6.0%	1.7%
Benchmark return	6.2%	-12.3%	-3.2%	3.3%
*Difference in return	1.9%	-4.5%	-2.9%	-1.5%

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 30.06.09	**12 Months to 30.06.09**	**3 Years to 30.06.09**	**5 years to 30.06.09**
Fund	8.2%	-16.3%	-6.0%	1.7%
Benchmark return	-0.8%	14.3%	7.5%	9.0%
*Difference in return	9.1%	-25.8%	-12.5%	-6.6%

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 30th JUNE 2009)

	Standard Life	**Alliance Bernstein**	**Royal London**	**UBS**
Return (performance)	17.3	6.0	6.8	-3.5
Benchmark	10.9	6.4	4.4	-3.1
***Over/(Under) Performance vs. Benchmark**	**5.8**	**-0.4**	**2.4**	**-0.4**
TARGET	11.4	7.03	4.6	n/a
*** Over/(Under) Performance vs Target**	**5.3**	**-1.0**	**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)	-22.2	-25.7	0.9	-31.7
Benchmark	-20.5	-14.6	2.5	-27.0
***Over/(Under) Performance vs. Benchmark**	**-2.1**	**-13.0**	**-1.6**	**-5.4**
TARGET	-18.5	-12.1	3.25	n/a
*** Over/(Under) Performance vs Target**	**-4.0**	**-15.5**	**-1.6**	**n/a**

Source: WM Company, Fund Managers and Hymans

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

4. <u>Other matters</u>

4.1 <u>Investment Strategy Update</u> –

Following on from the Special Pensions Committee meeting on the 6 Aug 09 members agreed the following:

a) Alternatives – Members have agreed that an advert will go out to commence the search for a Diversified Alternatives manager. The search as agreed will be conducted by Hymans and will follow the Open procedure. The Alternatives will be funded from reducing the weighting in Bonds by 5%.

b) Passive Management – Members have agreed that an advert will go out to commence the search for an equities passive Manager. The search as agreed will be conducted by Hymans and will follow the Open procedure. This will be funded by reducing the active holdings held by Alliance Bernstein by 5% and Standard Life by 10%. The overall asset allocation to equities of 60% will not change.

The cost of providing this service by Hymans for both searches will be £35,000, this is in line with the terms as laid down in their contract and the costs will be met from the pension fund.

c) Index Linked Bonds Reduction – It was previously agreed that the Fund's Bond weighting in Index Linked Bonds will be reduced by 5% to fund the 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. Hymans is still considering this option.

d) Mill Group - some members received a presentation prior to the pensions committee meeting on the 30 June 09 and all members have subsequently been distributed with the information regarding the Mill Group. **Members will need to consider whether they wish to continue to explore this option further**.

4.2 Communities and Local Government (CLG) consultation paper on the LGPS delivering affordability, viability and fairness - This consultation focused on the scheme stability and viability on the 2010 Scheme valuation exercise. Members were presented with the consultation on the Special Pensions Committee meeting on the 6 August 09 where this was discussed. The deadline for the response was mid September or no later than the 30 September. In light of the deadline the response was cleared by the chair and the response is attached for noting as Appendix B.

4.3 WM Performance Measurers - Officers met with a WM representative on the 3 August 2009 who gave a presentation on the 2008/09 returns of the WM universe. A summary of the major points are as follows:

- WM universe is made up of 87 funds.
- The average local authority fund returned -19.9%, the worst outcome since WM universe began.
- Only a quarter of funds outperformed the benchmark.
- Total returns of the combined funds over the last 10 years were not even greater than inflation.
- Funds in the universe had an average of nine managers.
- Havering Pension fund return was -25.2%. The relative underperformance against the benchmark of -7.7% was totally attributable to managers performance.
- The relative performance can be attributed to the effects of asset allocation and stock selection.
- In comparison to the universe Havering's asset allocation has been an issue but this is being addressed via strategy change although the overweight position in Bonds helped for the first time.
- Stock selection was the main problem in 08/09.
- One of the conclusions from the meeting is that having passive management in the portfolio of no more than 25% was a good move going forward.

5. Fund Manager Reports

5.1. 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 2009 has increased by 20% since 31 March 2009.

c) Standard Life out performed the benchmark in the quarter by 5.8% and out performed the target in the quarter by 5.3%. Since inception they have underperformed the benchmark by -1.0% and underperformed the target by -3. %.

5.2. Global Equities (Alliance Bernstein)

a) In accordance with agreed procedures officers met with representatives from Alliance Bernstein on the 3 August 09 at which a review of the quarter 2 performance was discussed.

b) The value of the fund as at 30 June 09 has increased by 10.37% since 31 March 09.

c) During the quarter the Havering Pension Fund made a contribution to Alliance Bernstein of £2.5m.

d) Alliance Bernstein underperformed the benchmark by -0.4% and underperformed the target by -1% (Net of fees). Since inception they are below benchmark by -3.2% and below the target by -5.5% (Net of fees).

e) Equity markets rebounded in the second quarter and the best performing sectors and stocks were generally those that were down most in the recent crisis.

f) The portfolio benchmark is split 50/50 between growth and value stocks. As at Quarter 2 this split was 49.9% Value and 50.3% Growth with an overlap of 11.5%. The best performance came from the value sleeve, which was offset by weakness in the growth sleeve.

g) The correlation between the growth and value sectors has re-emerged so far in 2009 but Alliance Bernstein were asked how they would respond to another market set back. Alliance Bernstein were of the opinion that they would do things differently this time in that they are now more diversified and are now doing more stress testing. They are more confident in their works in progress with regard to the way the fund is structured.

h) Contribution to performance came from currency selection – being overweight in sterling and underweight in Yen.

i) Stock selection was marginally negative.

j) Detractors from performance came from sector selection – being underweight in financials and industrials and overweight healthcare. Being underweight in consumer staples and underweight utilities did contribute to performance.

k) Alliance Bernstein was asked whether the performance attribution from currency was sustainable and whether they were concerned that stock and sector positions are not adding more value. Alliance Bernstein was of the opinion that given the character of the second quarter rally this is as expected and was not concerned.

l) With regard to economic recovery Alliance Bernstein do expect an improving trend and believe that the balance is right between the value/growth sleeves of the portfolio.

m) Alliance Bernstein gave Renault as an example of a stock they like as it is being valued by the market at ‘less than zero’ once the stakes in Nissan and Volvo trucks have been taken into account. Alliance Bernstein was asked whether it was possible that the Nissan/Volvo Trucks values were too high and Renault would then be fairly priced and not so attractive. Alliance Bernstein confirmed that their research concludes that Nissan and Volvo trucks is not overvalued and is a unique opportunity and also feel that the risk of nationalisation is minimal, research also suggests it has access to ample liquidity to see it through the crisis.

n) Alliance Bernstein feels that while markets rallied in this quarter, conditions remain far from normal. They believe that widespread uncertainty continues to create opportunity for active managers to add value.

o) No governance or whistle blowing issues were reported.

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

a) Representatives from Royal London are to make a presentation at this Committee, therefore a brief overview of the quarter 2 performance follows:

b) The value of the fund as at 30 June increased by 7% since March 09.

c) Royal London outperformed the benchmark for the quarter by 2.4% and 2.1% against the target. Since inception they are -0.6% below the benchmark.

5.4. Property (UBS)

a) In accordance with agreed procedures officers met with representatives from UBS on the 3 August 09 at which a review of the quarter 2 performance was discussed.

b) The value of the UBS Triton Property Fund as at 30 June has seen a decrease of 3.7% since March 09 and a decrease of 26% since the last meeting with members in December 08.

c) UBS underperformed the benchmark in the quarter by -.4% and underperformed the benchmark by -5.4% over the last 12 months.

d) UBS were questioned about their valuations and the possibility that their fund may be undervalued. UBS explained that a quarter of the fund is valued by two different valuers rotated on a quarterly basis, unlike other property funds that always use the same valuers. UBS always use the lowest valuations; sometimes this can mean a difference of opinion to the value of -4.5%.

e) With regard to the markets bottoming out UBS believe that the prime market is stable and will persist for a while. Lettings are OK if the price is right but there are some dips in rental value.

f) UBS were asked if there are long term buyers around or is it overseas investors who are buying and will this disappear once the market picks up or sterling recovers. UBS's opinion is that whilst the fall in sterling rekindled interest from overseas, for the euro based investors the UK is considered good investment and will still look attractive when sterling recovers, as cash investors over the long term will get better returns than investing in banks.

g) There was a discussion over the level of voids and what UBS are doing about them. The biggest void, representing 2.5 % of the fund was Watermark Place which was delayed due to planning procedures. Another large void was Newport, representing 2% of fund which was delayed due to Utilities. UBS have been requested to send an email with the top 15 vacancies and what they are doing to get them ready for letting.

h) UBS currently have to meet £125m of redemptions and to meet this they are planning to sell low yielding properties first. UBS have been requested to send a list of sales made over the last few quarters.

i) There have been a number of senior departures from UBS and UBS went on to explain about the future plans for the fund. The staffing structure has been changed which also includes Cliff Hawkins taking a step aside and being replaced by Anthony Shyle who will take over UK Real Estate, he was appointed from AXA and has had previous experience of managing similar products. The UBS Triton team headed by Alex O'Connell have all been appointed and promoted internally. UBS have given assurances that the team are well placed to continue with managing the Triton fund. They will start to look for new investors and new products in 2010 and intend to bed in the new team for the remainder of 2009.

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:

  Standard Life and Royal London

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

Financial Implications and risks:

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

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

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CHERYL COPPELL
Chief Executive

<u>Background Papers List</u>
Standard Life Quarterly report to 30 June 2009
Alliance Bernstein Quarterly report to 30 June 2009
Royal London Quarterly report to 30 June 2009
Western Asset Quarterly report to 30 June 2009
UBS Quarterly report to 30 June 2009
The WM Company Performance Review Report to 30 June 2009
Hyman's Monitoring Report to 30 June 2009

Havering
LONDON BOROUGH

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Richard McDonagh
Workforce, Pay and Pensions
Communities and Local Government
Local Government Finance Directorate
Zone 5/F6 Eland House
Bressenden Place
London SW1E 6DU

Date: 16 September 2009

Dear Mr McDonagh,

Consultation - Local Government Pension Scheme Delivering Affordability, Viability and Fairness

Thank you for giving us the opportunity to consider some possible amendments on scheme stability and viability on the 2010 valuation exercise as presented in your document dated 25 June 2009.

Members of the Pensions Committee and the other employers in the fund have been consulted.

Two of the main aims of the Havering Pension Fund Funding Strategy are:

- For employer rates to be kept as nearly as constant as possible and at reasonable cost to all employers of the fund and the taxpayer,
- To ensure that sufficient resources are available to meet all liabilities as they fall due.

  The Administrating Authority already monitors, on a monthly basis, to ensure that all cash requirements can be met.

With the above in mind our comments/views are as follows:

- Financing Plans – It is preferable that if required that this be incorporated into the existing Funding Strategy Statement instead of a separate document.
- Local Funding Targets – It was agreed that the Administrating Authority should be allowed to set local funding targets. However, if funding levels are allowed to be set locally then there should be guidelines and parameters laid down to ensure some consistency e.g. Minimum funding levels allowed, minimum and maximum recovery periods.
- Revised Employee contribution tariff – Although the impact of these changes are minimal it is generally agreed that these rates should be increased for the higher paid. It was also suggested that there should be a further step in the pay ranges for band 5, of up to £60,000.

Although the Pensions committee have already considered this consultation paper and put forward their views the next meeting of the Pensions committee is not until the 30 September. If there are any changes to this letter you will be notified on the 1 October.

Yours Sincerely,

Andrew Blake-Herbert
Group Director Finance and Commerce

Havering
LONDON BOROUGH

PENSIONS COMMITTEE
SUPPLEMENTARY AGENDA

7.30pm	Wednesday, 30 September 2009	Havering Town Hall, Main Road, Romford

Agenda item 6 is submitted with the agreement of the Chairman as an urgent matter, pursuant to Section 100B (4) of the Local Government Act 1972

Item 6

THE ADMISSION OF TULIP TO HAVERING'S PENSION FUND.

Report attached

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

Havering
LONDON BOROUGH

MEETING	DATE	ITEM
PENSIONS COMMITTEE	30 SEPTEMBER 2009	6

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: THE ADMISSION OF TULIP TO HAVERING'S PENSION FUND.

SUMMARY

1.1 This report recommends that Members consider whether to allow the 4 staff transferring under a TUPE arrangement from the Council to a private contractor (Tulip) to continue to be members (or have the right to membership) of the Local Government Pension Scheme (LGPS) by admitting Tulip to the London Borough of Havering's Pension Fund as an admitted body.

RECOMMENDATIONS

2.1 That Members consider whether to admit Tulip to Havering's Pension Fund as an Admitted Body to enable those staff who transferred from the Council under TUPE to continue membership (or have the right to membership) of the LGPS (Local Government Pension Scheme) subject to;

- All parties signing up to an Admission agreement and
- An indemnity or insurance bond in an approved form with an authorised insurer or relevant institution, being put into place to protect the pension fund.

Or

2.2 That Members decide not to admit Tulip to Havering's Pension Fund as an Admitted Body and therefore require them to provide a broadly comparable pension scheme to the transferring employees from London Borough of Havering Social Services, Mental Health Provider Team.

REPORT DETAIL

3.1. Tulip succeeded in winning the contract to provide the Harold Centre Project. The Harold Centre Project is a day service for people with severe and enduring mental health problems. The contract is for 3 years and is due to commence on 19th October 2009 replacing the current arrangements which are provided by the Mental Health Provider Team

3.2 When the Day Care service transfers from the Mental Health Provider Team to Tulip on 19th October 2009, the contracts of employment of a number of employees will transfer from LB Havering to Tulip. The Transfer of Undertakings (Protection of Employment) Regulations ("TUPE") applies to the employment terms and conditions of the relevant employees except for pension rights. One of the employees concerned is a member of the LGPS.

3.3 Subsequent to the letting of the contract, Tulip contacted the Council and enquired about the possibility of Admitted Body Status for the transferred employees. Specifically for the one employee who will be in the LGPS at the date of transfer.

3.4 In accordance with Government policy for Local Government employers, Tulip are required to provide pension benefits for future service which are broadly comparable to those provided under the LGPS or to participate in the LGPS for the provision of pension benefits for the transferring employees.

3.5 Tulip do not have a broadly comparable pension scheme and have applied to become an admitted body to Havering's Pension Fund, solely for the benefit of the transferred employees.

3.6 If agreed, Tulip would be admitted to the pension scheme under a 'closed' agreement i.e. only those employees transferring at the time the contract is effective would be admitted to the scheme, any new or existing employees of Tulip whether they are working on the Havering contract or not will not be eligible to join the pension scheme.

3.7 The Local Government Pension Scheme Regulations enable Tulip to be admitted to the LGPS as a transferee admission body.

3.8 Admission of non-local authority employers to the LGPS takes place by the means of a formal, legal admission agreement drawn up between the interested parties. Under the terms of the regulations, the effect of such a step is that:-

(a) relevant employees of the admitted body can fully participate in the Scheme and so can be described as pensionable employees; and

(b) the Regulations governing the Scheme treat the admitted body in exactly the same way as if it were a Scheme employer. For admission status and membership status to continue, the admitted body must adhere at all times to the Scheme regulations, including, of course, the specified terms of their individual admission agreements

3.9 To bring greater certainty and clarity to the formulation of admission agreements between all the parties, the regulations set out a number of mandatory matters of substance which must, therefore, be included in each admission agreement prepared under the Regulations.

3.10 An admission body as defined by the regulations must secure an actuarially appropriate level of indemnity, or bond, in an approved form so as to be able, as required by Regulations to satisfy the relevant administering authority (The Council). The collective purpose of these particular requirements is to protect LGPS pension funds from risk of any permanent financial loss and to guard against any deficiencies or shortfalls in the event of insolvency, or from any default by a contractor in the payment of contributions due to pension funds as may be determined by an actuary.

3.11 The Pension Fund's actuary has assessed the level of indemnity bond required (£12,000) although the exact arrangements for the bond cover would have to be finalised and therefore the recommendation in the report is made on the condition that suitable arrangements agreeable to all parties and in compliance with the Regulations, can be put into place.

Financial Implications and risks:

The Contribution rate set by the Actuary for the membership involved in the contract is 18% of pensionable pay. This is calculated on the basis that no new employees will be admitted to the Fund. This contribution rate is lower than the rate for Council employees, 21.8% as it reflects future service only. The deficiency that has built up in the Pension Fund remains with the Fund and does not transfer to the contractor.

The Actuary has assessed the level of indemnity bond cover required in respect of this contract assuming that it is not open to new entrants. The objective of the bond is to make good the funding position of the scheme if the contractor defaults on his obligations under the agreement, such as meeting the costs of early payment of pensions on redundancy for the over fifties or early retirement. This could occur at the end of the contract term or at some mid point if the contractor, say, goes into liquidation.

The initial level of the bond cover is being set at £12,000. If the contract is renewed this will be reviewed as part of the triennial valuation or more frequently if required.

It is essential that the cover level be reviewed regularly, and that it is made clear to the new body that this will occur and that further finance may be required. This will be included in the Admission Agreement.

There is also the risk that there may be a deficiency when the admission agreement is terminated. This risk is managed by the closure valuation and associated certificate, which will be included in the admission agreement. Tulip will be required under the agreement terms to make good the deficiency.

Legal Implications and risks:

Where staff transfer from the public sector, the Cabinet Office, Statement of Practice (January 2000) requires 'broadly comparable' pension provisions to be made, by the recipient-contractor, for the staff who transfer. Granting admission body status to Tulip will enable this requirement to be met.

The Local Government Pensions Scheme Regulations require an admission agreement to be entered into where admission body status is granted to an 'external' body. As set out, within the body of the report, Tulip will be required to provide a bond.

To comply with the requirements of the Local Government Pension Scheme Regulations, the Commissioner for Inland Revenue and the Secretary of State must be notified, within the required time periods, that the Council - as the 'Administering Authority' for the Havering pension fund - has entered into an admission agreement with Tulip.

Human Resources Implications and risks:

The continued admission of these staff in the LGPS gives them ongoing equality of pension provision with Council employees.

Equalities and Social Inclusion Implications and risks:

None for the purposes of this report.

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CHERYL COPPELL
Chief Executive

<u>Background Papers List</u>

The Pension Implications of Transferring Employees to an External Provider (Information guide issued by the Employers Organisation)

The Local Government Pension Scheme Regulations (As Amended) and the Guidance notes issued with them.