PENSIONS COMMITTEE SUPPLEMENTARY AGENDA

30 October 2013

The following report is attached for consideration and is submitted with the agreement of the Chairman as an urgent matter pursuant to Section 100B (4) of the Local Government Act 1972

4 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the special meetings held on 24 July and 12 September 2013 and the meeting held on 24 September, 2013 and authorise the Chairman to sign them.

Andrew Beesley
Committee Administration Manager

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**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
24 September 2013 (7.00 - 9.25 pm)**

Present:

COUNCILLORS

Conservative Group	Rebbecca Bennett (Chairman), Melvin Wallace (Vice-Chair), Steven Kelly and Roger Ramsey
Residents' Group	Ron Ower
Labour Group	Denis Breading (In place of Pat Murray)
UKIP	Ted Eden (in place of Frederick Osborne)
Trade Union Observers	John Giles (UNISON)

Apologies were received for the absence of Councillors Pat Murray and Frederick Osborne, and Andy Hampshire (GMB).

The Chairman reminded Members of the action to be taken in an emergency.

12 **COMMITTEE MEMBERSHIP**

We have **noted** that following the special meeting of the Council on 4 September, 2013 Councillor Frederick Osborne had been appointed as the UKIP representative replacing Councillor Jeffrey Tucker, (Independent Residents Group).

13 **MINUTES OF THE MEETING**

The minutes of the meeting held on 26 June 2013, and the exempt minutes thereof, were agreed as a correct record and signed by the Chairman.

14 **PENSION FUND ACCOUNTS 2012/13**

We have **agreed** to consider agenda items 7 (Pension Fund Accounts 2012/13), 8 (Report to those charged with Governance) and 9 (Response to Auditors) as a single item.

In 2012/13 we had seen the fund grow from £403.5m to £460.5m. The auditors had issued an unqualified opinion, and had identified no matters which required a report to the Pensions Regulator. The auditors identified five issues which they wished to bring to the Committee's attention. Three were identified as medium risk and two as low risk.

The first issue raised was concern that the Pension Committee did not discuss fraud risk. In reply officers stated that investment fraud risk was covered by the internal control reports undertaken by the Fund Managers externally appointed auditors. The Committee annually consider benefit fraud in the Pension Fund Annual Report. The Internal Audit and Risk Manager will be submitting a separate fraud report in the future.

The second issue concerned issues with admission arrangements. Details of two areas of concern were highlighted and we have asked officers to keep us informed of progress in addressing all the issues raised on a regular basis.

We have **noted** the Accounts, the Auditors report and officer responses. We have no issues to bring to the attention of the Audit Committee and await regular updates from officers on their responses to the issues raised by the auditors.

15 **BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2012/13**

We have received the Business Plan/Annual Report on the work of the Pensions Committee for 2012/13. The Plan provides details of the work of the committee in 2012/13 and a plan of work for 2013/14.

Officers advised that CIPFA guidance suggested that the Business Plan should contain:

- Major milestones & issues to be considered by the committee;
- Financial estimates – investment and administration of the fund;
- Appropriate provision for training;
- Key targets & methods of measurement;
- Review level of internal & external resources the committee needs to carry out its functions; and
- Recommended actions to put right any deficiencies.

Having considered the report we have **agreed**

1. the Business Plan subject to a minor amendment to show that Councillor Jeffrey Tucker remained a member of the Committee from May 2013 for submission to Council on 9 October, 2013; and
2. the training proposals identified in Annex C to the Business Plan.

16 **EXCLUSION OF THE PUBLIC**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal

information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

17 **APPOINTMENT OF NEW FUND MANAGER'S**

We were advised that only those councillors who had been in attendance on the 12 September could take part in the discussion and voting on this item. As Councillor Ramsey was unfortunately late for the meeting he was also ineligible to take part.

After much discussion we have **agreed** to appoint Manager E as the second new Fund Manager. (Vote two for Councillors Bennett and Wallace and 1 against Councillor Kelly).

Having appointed the second new Fund Manager we then considered what percentage of the total Pension Fund we would allocate to each new Manager. We have **agreed** to allocate 20% to Manager B and 15% to manager E. (Vote two for Councillors Bennett and Wallace and 1 against Councillor Kelly).

Finally we considered how to move these decisions forward and we have **agreed** unanimously to

1. delegate to the Group Director Resources authority to manage the process of transferring funds to the new managers, and
2. utilise the services of a Transition manager to ensure the process proceeds effortlessly.

18 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2013**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 June 2013 was -0.4%. This represented an out performance of 1.0% against the combined tactical benchmark and an outperformance of 5.0% against the strategic benchmark.

The overall net return for the year to 30 June 2013 was 16.6%. This represented an out performance of 3.3% against the annual tactical combined benchmark and an out performance of 18.7% against the annual strategic benchmark.

1. Hymans Robertson (HR)

HR advised that perhaps the most significant event during the quarter came in late May, when the US central bank hinted it may begin scaling back its programme of asset purchases by the end of the year. This raised immediate concerns that economic activity, which the programme was designed to support in the first instance, might be adversely affected. Signs of a potential credit crunch in China, reduced forecasts for economic growth in the Eurozone and an uncertain outlook in the UK added to the sense of unease. Equity markets responded with sharp falls, particularly in Asia Pacific and Emerging Markets, offsetting gains earlier in the quarter. The FTSE All-World index was flat over the quarter. In the UK, the FTSE All Share index returned -1.66% over the quarter.

Bond investors interpreted the prospect of reduced assets purchases in the US with some caution. Bond prices fell (yields rose), in all major markets. The yield on the 10 year US Treasury, a widely followed benchmark, reached its highest level in more than a year.

In the UK, the Chancellor of the Exchequer presented his spending review in June against a background of intense debate over the efficacy of austerity. Further savings of £11.5bn were announced. With an eye beyond the immediate difficulties, the Chancellor also announced funding of £100bn for infrastructure projects between now and the end of the decade.

Key events during the quarter were:

Global Economy

- The Governor of the Bank of England stated the UK economy was showing signs of renewed vigour; the UK ‘funding for lending’ scheme was extended, despite poor initial take up;
- Rating agency S&P raised its outlook for the US economy but reiterated concerns about the high level of debt;
- The European Commission allowed some member states to slow the pace of austerity measures;
- Short-term interest rates were unchanged in UK, US and Japan but were cut in the Eurozone, from 0.75% to 0.50%;
- The Eurozone reported a fourth consecutive quarter of economic contraction.

Equities

- The best performing sectors relative to the ‘All World’ Index were Health Care (+3.0%) and Telecommunications (+2.9%); the worst were Basic Materials (-9.8%) and Oil & Gas (-3.1%);
- The Dow Jones equity index (US) reached a record high (15,000) in May.

Bonds

- UK government bond prices fell (yields rose), but outperformed their overseas counterparts;
- UK index linked issues (-6.5%) underperformed fixed interest issues (-3.8%).

The Committee were given details of the performance of the Fund managers, a summary of which is given in the Exempt minutes.

State Street, Baillie Gifford and Ruffer continue to perform as expected.

The news on the UBS Triton Fund was much more positive. The fund had received new investment from three institutional investors which with requests from clients to withdraw from the redemption queue, meant that the notice of liquidation had been revoked. The portfolio was in a better shape than 12 months previously with many problem properties having been sold.

2. Standard Life (SL)

Both David Cumming and Dale MacLennon attended to deliver the presentation on Standard Life's behalf. Standard Life had delivered over the last few months, at the end of June the portfolio was valued at £86.85m, at the end of July at £94.2m and at the time of the meeting approx. £97m.

They advised that in quarter 2 they had outperformed the benchmark by 3%, and over the last 12 months by 7.8%. However, over the last 5 years they had underperformed by -0.3 % and since inception by -0.4%.

We have noted the report and thanked David and Dale for their presentation.

3. Royal London (RL)

Paul Rayner and Fraser Chisholm attended on behalf of Royal London to update the Committee on the current position with their mandate. Although quarter 2 had been a difficult time for the Bond market, and the value of the portfolio had fallen Royal London had continued to outperform the benchmark. Quarter 3 had seen the portfolio regain some value.

Over the last 12 months they had outperformed the benchmark by 2.09%, over 5 years by 1.29% and since inception outperformed by 0.63% Their target is to outperform the benchmark by 0.75% so they were slightly behind target since inception.

The Committee continue to retain confidence in Royal London and noted the report and thanked Paul and Fraser for their presentation.

Chairman