



Haverling

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

PENSIONS COMMITTEE AGENDA

7.30 pm

**Wednesday
14 September 2011**

**Town Hall, Main Road,
Romford**

Members 7: Quorum 3

COUNCILLORS:

**Conservative Group
(4)**

**Residents' Group
(1)**

**Labour Group
(1)**

**Independent
Residents' Group
(1)**

Eric Munday
(Chairman)
Damian White (Vice-
Chair)
Roger Ramsey
Melvin Wallace

Ron Ower

Denis Breading

Jeffrey Tucker

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)

**Admitted/Scheduled Bodies
Representative**

(No Voting Rights) (1)

David Holmes

TBC

**For information about the meeting please contact:
James Goodwin 01255 432432
email: james.goodwin@haverling.gov.uk**

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 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 any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the meeting held on 22 June 2011 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE MONITORING - QUARTER ENDING 30 JUNE 2011 (Pages 7 - 18)

Report attached

6 PENSION FUND ACCOUNTS 2010/11 (Pages 19 - 30)

Report attached

7 URGENT BUSINESS

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

8 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

- 9 REVIEW OF INVESTMENT MANAGERS' PERFORMANCE FOR THE SECOND QUARTER OF 2011** (Pages 31 - 46)
- 10 STANDARD LIFE** (Pages 47 - 80)
- 11 ROYAL LONDON** (Pages 81 - 100)

**Ian Buckmaster
Committee Administration &
Member Support Manager**

This page is intentionally left blank

**MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford
22 June 2011 (7.30pm – 8.55pm)**

Present:

COUNCILLORS

Conservative Eric Munday (in the Chair), Roger Ramsey,
Frederick Thompson* and Damian White

Residents Ron Ower

Labour Dennis Breading

Trade Union Observers John Giles (Unison)

An apology for absence was received from Councillor Wallace (Substitute Councillor Thompson).

All decisions were made with no member voting against.

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

27. MINUTES OF THE MEETING

The minutes of the meetings held on 24 March 2011 were agreed as a correct record and signed by the Chairman.

28. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2011

The Committee received a report from officers on the performance of the Havering Pension Fund investments for the quarterly period to 31 March 2011. The net return on the Fund's investments for the quarter was 0.9%. This represented an under performance of -0.2% against the combined tactical benchmark and an out performance of 1.7% against the strategic benchmark.

The overall net return of the Fund's investments for the year to 31 March 2011 was 6.3%. This represented an underperformance of -1.9% against the annual tactical combined benchmark and an under performance of -3.3% against the annual strategic benchmark.

a) Hymans Robertson (HR)

HR informed the Committee that equity markets had proved remarkably resilient to the seemingly endless flow of bad news during the first quarter of 2011. Wide spread political tension in Arab countries and the implications of events in Japan had been accepted with equanimity by investors.

Key events during the quarter were:

Global Economy

- IMF upgrades political economic growth forecast for 2011-08-22
- Japanese authorities provide support to markets after earthquake and nuclear 'incident'
- Ireland seeks emergency funding aid to support debt laden economy
- US continues asset purchase programme to support economy
- Sovereign debt problems in Ireland and Portugal threaten cohesion within Euro-zone.

Currencies

- Sterling appreciates against US\$ and Japanese Yen but falls against the Euro
- Euro appreciates ahead of increase in short-term interest rates (announced 7 April)

Bonds

- Index linked gilts outperform fixed interest issues on concerns over inflation
- Corporate bonds outperform government issues, reflecting strong corporate results and demand for higher yielding assets
- Yield differentials between highly indebted Euro countries and Germany widen to very significant levels.

HR were of the opinion that whilst there were grounds for a more optimistic view of economic prospects, a number of factors had the potential to deliver a 'shock', not least the scale of the US deficit and the implications of the continuing political instability in Arab countries. In the UK, the full impact of spending cuts and higher taxes had yet to be revealed.

The Committee were advised that the first quarter of 2011 had seen some changes in the manager structure. Alliance Bernstein's mandate was terminated on the 23rd February 2011 and the assets transferred to the passive portfolio managed by State Street. Following the quarter end additional units were purchased in the USB Triton Fund from internal cash and there had been a rebalancing of assets from Royal London's bond

mandate to Ruffer's absolute return mandate (approx 5% of Fund assets).

The Total Fund performed broadly in line with benchmark over the quarter. Relative returns were helped by the outperformance of Royal London and UBS, but Standard Life's underperformance acted as a key detractor.

b) **UBS Triton**

Justin Brown (JB), Portfolio Manager, UBS Triton and Claire Felgate, Investment Relations, GRE – UK attended the meeting to deliver a presentation on UBS's performance in quarter 1. Over the quarter the fund had outperformed the benchmark by 1% and over the last 12 months they had outperformed the benchmark by 1.7%. The Committee were advised that UBS expected this trend to continue in quarter 2.

Other the last 12 months asset management initiatives had continued to reduce the number of voids to 7.1% which was 3% below the IPD UK Monthly Index void rate. These measures together with the stock repositioning had enabled the fund to turn round it's performance.

JB advised the Committee the UBS would not be charging any performance fees if there was a negative return even if they were outperforming the benchmark. JB considered the current performance fee arrangements to be not fit for purpose and these were being reviewed.

JB indicated there were no governance nor whistle blowing issues.

The Committee **noted** the positive report and thanked Mr Brown and Ms Felgate for their presentation.

Having considered the officers' report, the report from Hymans Robertson and the presentations from UBS Triton the Committee:

- i) **Noted** the summary of performance of the Pension Fund, i.e. an increase of £3.79m over the quarter);
- ii) **Noted** that no Corporate Governance issues had arisen from the voting of each Fund Manager; and
- iii) **Noted** the analysis of the cash balance.

29. **REVIEW OF FUNDING STRATEGY STATEMENT**

The Committee were advised that in line with the Local Government Pensions Scheme (Administration) Regulations 2008 and good practice the London Borough of Havering as an administrating authority undertook a review of the Funding Strategy Statement (FSS) during the Fund's revaluation process.

The Fund's Actuary was consulted throughout the re-evaluation process and this had resulted in some material changes being required. The proposed Statement

had been circulated to all employers in the scheme and no comments were received.

Officers highlighted the proposed changes for the Committees consideration.

Having considered the report the Committee **AGREED** to the proposed changes to the Funding Strategy Statement.

30 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2010/2011

The Committee received a report setting out the work undertaken by the Committee during 2010/11 and the plan of work for the following year (2011/12) along with an assessment of the training requirements for Members of the Committee. This forms the basis of the Pension Fund Business Plan.

Officers advised the Committee that CIPFA guidance suggested that the Business Plan should be submitted to the Pensions Committee and should contain the following:

- 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
- Recommended actions to put right any deficiencies

The Committee were asked to indicate to officers their preferences for either daytime or evening training. Members were also encouraged to complete the self assessment form and undertake the Knowledge and Skills framework which was available on land. The Committee **AGREED** that the training should be extended to include substitute members.

The Committee **AGREED** the Business Plan/Annual Report and **AGREED** that this be submitted to full Council.

31 EQUITY MANAGER STRUCTURE

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

Having considered the advice of Hymans Robertson and the comments of officers it was **AGREED that:**

1. The State Street mandate be reduced from c.£142m to c.£100m, with State Street moving to a single mandate with a global equity benchmark;
2. The Standard Life mandate be reduced from c. £92m to c.£66m; and
3. The Fund go out to tender for a new, active global equity manager for a mandate valued at c.£66m.

Chairman

14th September 2011

This page is intentionally left blank



PENSIONS COMMITTEE

14 September 2011

Subject Heading:	PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2011
Report Author and contact details:	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 30 June 2011

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

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

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 June 2011. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 30 June 2011 was **1.5%**. This represents an out performance of **0.1%** against the combined tactical benchmark and an under performance of **-1.5%** against the strategic benchmark.

The overall net return of the Fund's investments for the year to 30 June 2011 was **17.4%**. This represents an out performance of **0.8%** against the annual tactical combined benchmark and an out performance of **11%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007, with further market falls during 2008. The markets did rally during 2009, erasing some of the losses from the year before.

In the quarter ending June 11 most of the focus was on the debt crisis in Greece. Once Greece agreed austerity measures this provided a boost to the markets at the end of the quarter with global equity markets finishing higher than at the start but the markets are still very volatile over global economic growth and high inflation.

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

RECOMMENDATIONS

That the Committee:

- 1) Considers Hymans performance monitoring report and presentation (Appendix A).
- 2) Receive a presentation from the Funds UK Equities Manager (Standard Life) and the Funds 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 4 refers).
- 7) Notes the analysis of the cash balances (paragraphs 2.2, 2.3 and 2.4 refers).

REPORT DETAIL

1. Background

- 1.1 A major restructure of the fund took place in the first quarter of 2005. A further restructure of the fund took place during the first half of 2008 and

these changes were reflected in a revised Statement of Investment Principles (SIP) adopted by members in September 2008 and subsequently updated in June 2010. Implementation of the revised strategy is currently ongoing.

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

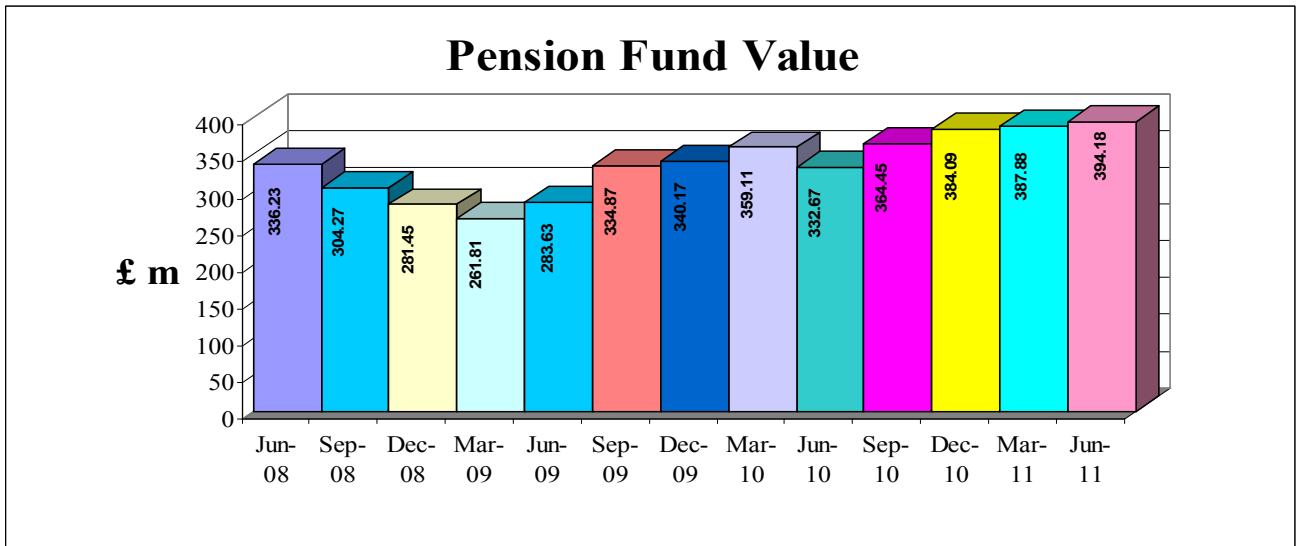
1.3 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according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

Manager and % of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target
Standard Life 20%	UK Equities -Active	FTSE All Share Index	2%
State Street (SSgA) (Account 2) 25%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
State Street (SSgA) (Account 1) 15%	UK/Global Equities - Passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Royal London Asset Management 25%	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
Ruffer 5%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark

- 1.4 The Committee appointed a Multi-Asset Manager (Ruffer) and a Passive Equity Manager (State Street Global Advisors Limited (SSgA)) in February 2010. Both Managers commenced trading from 8th September 2010.
- 1.5 The mandate with the Global Equities Manager (Alliance Bernstein) was terminated in February 2011. Assets were transferred to State Street Global Advisors pending further consideration of the investment strategy.
- 1.6 UBS and SSgA manage the assets on a pooled basis. Standard Life, Royal London and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.
- 1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).
- 1.8 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset (Ruffer) and the Passive Equity (SSGa) Managers who will attend two meetings per year, one with Officers and one with Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.
- 1.9 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 30 June 2011 was **£394.18m**. 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 £387.88m at the 31 March 2011; an increase of **£6.3m**. The movement in the fund value is attributable to a decrease in cash of £4.8m from £8.4m, which was reinvested in the fund and an increase in fund performance of £11.1m. The internally managed cash level now totals **£3.5m**, of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£3.5m** follows:

<u>CASH ANALYSIS</u>	<u>2009/10</u>	<u>2010/11</u> <u>(Updated)</u>	<u>2011/12</u>
	£000's	£000's	£000's
Balance B/F	-7999	-4763	-8495
Benefits Paid	26926	25702	9276
Management costs	1939	1895	473
Net Transfer Values	2639	-3053	-419
Employee/Employer Contributions	-28251	-28333	-6629
Cash from/to Managers/Other Adj.	0	176	2214
Internal Interest	-17	-119	-6
Movement in Year	3236	-3732	4909
Balance C/F	-4763	-8495	-3586

The 2011/12 figures are based upon an interim report and are subject to further adjustments.

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

2.4 As agreed by members on the 24 March 11, internally managed cash of £7m was transferred to UBS in May 2011. Income received of £2.1m not needed for reinvestment by Fund managers was transferred from our custodian on the 25 May 2011 to top up the internally managed cash.

3. Performance Figures against Benchmarks

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

	Quarter to 30.06.11	12 Months to 30.06.11	3 Years to 30.06.11	5 years to 30.06.11
Fund	1.5%	17.4%	4.8%	2.7%
Benchmark return	1.3%	16.4%	7.0%	4.8%
*Difference in return	0.1%	0.8%	-2.0%	-2.0%

Source: WM Company

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

3.1.2 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 30.06.11	12 Months to 30.06.11	3 Years to 30.06.11	5 years to 30.06.11
Fund	1.5%	17.4%	4.8%	2.7%
Benchmark return	3.0%	5.7%	10.3%	7.8%
*Difference in return	-1.5%	11.0%	-5.0%	-4.8%

Source: WM Company

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

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

3.1.3 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 30 JUNE 2011)

	Standard Life	Royal London	UBS	Ruffer	SSgA
QUARTER					
Return (performance)	1.8	2.9	2.9	1.3	0.6
Benchmark	1.9	2.6	1.8	0.2	0.1
*Over/(Under) Performance vs. Benchmark	-0.1	0.3	1.1	1.1	0.5
TARGET	2.4	2.8	n/a	n/a	n/a
* Over/(Under) Performance vs. Target	-0.6	0.1	n/a	n/a	n/a

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

	Standard Life	Royal London	UBS	Ruffer	SSgA
ANNUAL					
Return (performance)	28.7	7.6	10.2	n/a	n/a
Benchmark	25.6	6.0	7.6	n/a	n/a
*Over/(Under) Performance vs. Benchmark	3.1	1.6	2.6	n/a	n/a
TARGET	27.6	6.7	n/a	n/a	n/a
* Over/(Under) Performance vs. Target	1.1	0.8	n/a	n/a	n/a

Source: WM Company, Fund Managers and Hymans

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

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

- a) Representatives from Standard Life are to make a presentation at this committee, therefore a brief overview of their Quarter 2 performance follows:
- b) Market Value of the fund as at 30 June increased by 1.91% compared with the previous quarter.
- c) Standard Life underperformed the benchmark in the quarter by -0.1% and underperformed the target in the quarter by -0.6%. Since inception they are below benchmark by -0.6% and -2.5% against the target.

4.2. 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 their Quarter 2 performance follows:
- b) As agreed by the committee at its meeting on the 24 March 11 to reduce the funds holdings in Bonds by 5% in order to rebalance the fund, cash totalling £19m was transferred to Ruffer on the 20 April 11. Hence the market value of the fund as at 30 June decreased compared with the previous quarter. Aside from the decrease in value due to the transfer of cash the fund has since risen by 2.97%.
- c) Royal London outperformed the benchmark for the quarter by 0.3% and 0.1% against the target. Since inception they outperformed benchmark by 0.5%.

4.3. Property (UBS)

- a) In accordance with agreed procedures officers met with representatives from UBS on the 18 August 2011 at which a review of their Quarter 2 performance was discussed.
- b) As agreed by the committee at its meeting on the 24 March 11 cash totalling £7m was transferred to UBS on the 17 May 2011. This was funded from internally managed cash; hence the value of the fund with UBS as at 30 June has increased.
- c) Since the £7m transfer in May 11 there has been an increase of 1.3% as at 30 June 11 and a subsequent increase of .29% as at the end of July.
- d) UBS out performed the benchmark in the quarter by 1.1% and out performed the benchmark in the year by 2.6%.

- e) The number of properties in the pooled fund currently stands at 42.
- f) The void rate as at 30 June 11 was 7.6% against a benchmark of just under 10%.
- g) The main drivers of performance came from a unit in Central London. The main detractor from performance has come from units in a shopping centre in Newport. UBS have said that the long term aim is to sell the units in the shopping centre and currently is also holding some vacancies.
- h) The redemption queue is now valued at c£10m.
- i) UBS explained their sector weightings and whilst they are confident with their weightings in these sectors they are aiming to increase an underweight position in Industrials. They have a couple of sites under offer and are hopeful that the weighting will move closer to the benchmark in the next few months.
- j) Since we last met with UBS they have explained that they have taken a number of steps to strengthen their governance arrangements around the rate of growth (as this is what has caused problems with the portfolio in the past). They have developed guidelines and introduced thresholds so any variance within the threshold would have to be sanctioned by their investment committee.
- k) UBS also talked through the proposed alterations to its fee structure and why the changes were necessary. These proposals will be voted on at their EGM at the beginning of November.
- l) Key Fee changes as follows:
 - **Change the fund's benchmark from median to a weighted average.**
Currently there are 28 funds included in the benchmark, some of which have significant different portfolios to UBS Triton due to their size or strategy. The median measure treats each fund equally whereas the weighted average measure will provide a more consistent and comparable measure.
 - **Increase the measurement period for performance fee calculation from 1 to 3 years.**
More appropriate than one year to test performance and encourages manager to take a longer term view in making investment decisions.
 - **Introduce tiered annual management fee which will decrease as the fund grows.**
As the fund grows, the average annual management fee will reduce reflecting the economies of scale in managing the fund and also reducing the business pressure to grow the fund which may potentially compromise performance.

These changes will be discussed with the Fund's investment advisor before a decision is made on whether to vote for or against the proposal prior to the EGM meeting. The resolution will be passed if a 75% majority is reached.

4.4. Multi Asset Manger (Ruffer)

- a) In accordance with agreed procedures officers will only meet with representatives from Ruffer once in the year with the other meeting to be held with members. Ruffer attended their first meeting with members at the 24 March 11 Pensions Committee meeting. Officers were not due to meet with officers but a brief review of their Quarter 2 performance follows:
- b) As agreed at its meeting on the 24 March 11 the committee agreed to increase its investments with Ruffer as part of the Fund's rebalancing. Cash totalling £19m was transferred to Ruffer from Royal London on the 20 April 11. Hence the market value of the fund as at 30 June has increased.
- c) Ruffer outperformed in the quarter by 1.1%.
- d) Main contributor to performance came from Index linked bonds, with inflation generally rising and interest rates being kept low these were natural benefits. Main detractor from performance was in gold equities. Despite rises in underlying gold prices, gold mining stocks continued their dismal year buffeted by rising input costs (especially energy) and general equity risk aversion.

4.5. Passive Equities Manager (SSgA)

- a) In accordance with agreed procedures officers will only meet with representatives from SSgA once in the year with the other meeting to be held with members. Officers were not due to meet with officers but a brief review of their Quarter 2 performance follows:
- b) The value of the fund (Account 1) as at 30 June 11 increased by 0.65%. Since inception account 1 has out performed the benchmark by 0.02%.
- c) On termination with the funds Global Asset Manager (Alliance Bernstein) a second wave of assets was transferred to SSgA on the 23 February 2011 to be managed passively (Account 2). The value of account 2 has increased by 0.45%. Since inception Account 2 has out performed the benchmark by 0.01%.
- d) The second account is being kept separate, as the current intention is that this is a temporary measure until further discussions on the investment strategy have progressed.
- e) Cash is continuing to be swept up by State Street from the Alliance Bernstein account (held by the custodian) and will continue until all

dividends, tax reclaims and trades have all been settled in the Alliance Bernstein account.

- f) Officers are still in discussion with the Fund's advisor regarding consideration of switching to currency hedging within the portfolio.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which is available for scrutiny in the Members Lounge.
2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
3. Receive quarterly information from the Investment Managers, detailing new Investments made.
 - Points 1 and 3 are contained in the Managers' reports.
 - With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.
- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

Standard Life and Royal London

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

IMPLICATIONS AND RISKS

Financial Implications and risks:

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

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

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

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 30 June 2011
Royal London Quarterly report to 30 June 2011
UBS Quarterly report to 30 June 2011
The WM Company Performance Review Report to 30 June 2011
Hyman's Monitoring Report to 30 June 2011

	Havering
LONDON BOROUGH	
PENSIONS COMMITTEE	
14 September 2011	

Subject Heading:	PENSION FUND ACCOUNTS 2010/11
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: debbie.ford@havering.gov.uk
Policy context:	Pension Fund Accounts to be noted by the Pensions Committee prior to agreement by the Audit Committee
Financial summary:	The report comments on the Pension Fund Accounts for the year ended 31 March 2011

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

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

SUMMARY

This report provides Members with an extract of the Council's Statement of Accounts for the year to 31st March 2011 showing the accounts of the Havering Pension Fund as at that date.

RECOMMENDATIONS

That the Committee consider and note the Havering Pension Fund unaudited Accounts as at 31st March 2011 and consider if there are any issues that need to be brought to the attention of the Audit Committee.

REPORT DETAIL

1. Background

1.1 The Council's Audited Statement of Accounts for 2010/11 will be presented to the Audit Committee for agreement on 22 September 2011. As these accounts include the Pension Fund accounts any matters which in the opinion of the Pensions Committee would require any amendments to the accounts will need to be reported to the Audit Committee.

1.2 At the time of writing this report the Pension Fund Accounts are still subject to audit by PricewaterhouseCoopers (PwC) as part of the overall audit of the Council's accounts, no material changes have yet been requested. If there are any material changes to report this will be provided verbally on the night of this committee meeting, as will any material issues raised as part of the audit process. The part of the Statement of Accounts which covers the Havering Pension Fund Accounts has been extracted and attached to this report as **Appendix A**.

1.3 Key items to note from the statement are:

- The Net Assets of the Fund have increased to **£388m** for 2010/11 from £360m in 2009/10, a net increase of £28m.
- The net increase of £28m is comprised of a change in the market value of assets of £14m, investment income of £10m and net additions (cash) of £5m, offset by management expenses of (£1m).
- The overall return on the Fund's investments was 6.3%. This was an under performance of -1.9% against the tactical benchmark and an under performance of -3.3% against the strategic benchmark. Although stock market values have risen over the year the markets are still very volatile.

- 1.4 A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2010/11 Pension Fund Annual Report. The 2010/11 Pension Fund Annual report will be presented to the Pensions Committee on 9 November to meet the statutory publication date of 1 December 2011.

IMPLICATIONS AND RISKS

Financial Implications and risks:

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

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2011.

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

BACKGROUND PAPERS

Working papers held within the Corporate Finance section.
Draft statement of Accounts 2010/11

This page is intentionally left blank

Pension Fund

Introduction

The Council's Pension Fund is operated under the Local Government Pension Scheme Regulations 2007; the Fund provides benefits for employees (excluding teachers) which include retirement pensions, spouse and children's pensions, death grants and other lump sum payments. Civil partners are now recognised as having the same benefit rights as members' spouses.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts.

Membership

The membership of the Pension Fund is as follows:

	As at 31 March 2011	As at 31 March 2010
Contributors	6,155	6,157
Deferred pensioners	4,041	3,744
Pensioners and Dependants	5,065	4,951
TOTAL	15,261	14,852

Employers in the Fund

The other employers in the Pension Fund are as follows:

Scheduled bodies

Havering College of Further Education
Havering Sixth Form College
Homes in Havering
Drapers Academy

Admitted Bodies

Havering Citizens Advice Bureau
Morrisons (formerly AWG)
May Gurney
Sports & Leisure Management Ltd
KGB Cleaners

Designated Bodies

Trust Schools

Hall Mead Secondary School
Corbets Tey Special School

Foundation Schools

Frances Bardsley School for Girls
Abbs Cross School
The Chafford School
Brittons School & Technology College
The Sanders Draper School
The Albany School
The Mawney Primary School

Voluntary Aided Schools

Campion School
Sacred Heart of Mary's Girl's School
St Edwards CE Secondary Comprehensive
Coopers' Company & Coborn School
St Alban's Catholic Primary
St Edwards CE Primary
St Joseph's RC Primary
St Mary's RC Primary
St Patrick's Catholic Primary School
St Peter's Catholic Primary School
St Ursula's RC Junior School
St Ursula's RC Infant School
La Salette RC Primary School

Investment Arrangements

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements and each year publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

The Group Director Finance and Commerce supports the Pension's Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pension's administration.

Havering Pension Fund appointed five fund managers in February 2005 with specific investment mandates. A review of the funds investment strategy took place during the summer of 2008. The main change resulted in the fund aiming to reduce its asset allocation to Bonds and increase its allocation to Equities. The mandate with the Global Bond's Manager was therefore terminated in August 2008. Given that markets had seen unprecedented volatility and market falls during 2008 some of the intended restructuring was postponed. The markets were monitored during 2009 and the fund carried out a competitive tender process for a Passive Equity Manager and a Multi –Asset Manager. The results of this exercise awarded contracts to State Street (passive equities manager) and Ruffer Investment Company (Multi-asset manager) who commenced trading in September 2010. In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets have been placed with the Passive Equity Manager (State Street Global Assets) until the Pensions Committee consider their next steps. Further strategy implementation (including rebalancing) will be undertaken during 2011/12.

The fund managers and the market value of assets under their management at the 31st March 2011 were as follows:

Manager	Mandate	Value	
		£,000	%
Standard Life	UK Equities	91,172	24.12
Alliance Bernstein	Global Equities	150	.04
Royal London	Investment Grade Bonds	105,943	28.03
UBS	Property	20,316	5.38
Ruffer	Absolute Return	18,365	4.86
State Street Global Assets	Passive UK/Global Equities	141,878	37.54
	Sub total	377,824	99.97
	Other	123	.03
	Total Fund	377,947	100.00

The longer term performance is as follows:

	3 years to 31.3.10 %	5 years to 31.3.10 %
Fund return	3.1	1.8
Tactical Benchmark	5.8	4.1
Performance	(2.6)	(2.1)
Fund return	3.1	1.8
Strategic benchmark	8.1	6.8
Performance	(4.6)	(4.6)

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk and to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

Performance

Havering Pension Fund uses the services of The WM Company to provide comparative statistics on the performance of this Fund. The performance of the Fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks set for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 2.9% (net of fees) p.a. The main factor in meeting the strategic benchmark is market performance.

In 2010/11, the overall return on the Fund's investments was 6.3% (2009/10 38.2%). This represented an under performance of -1.9% against the tactical benchmark (2009/10 2.5%) and an under performance of -3.3% against the strategic benchmark (2009/10 34.2%).

Following the unprecedented volatility in financial markets in the wake of the credit crunch and economic downturn, there was some considerable recovery during 2009/10. Although Stock market values have risen over the current year the markets are still very volatile.

Pension Fund Account for the year ended 31st March 2011

2009/10 £'000		Note	2010/11 £'000
Contributions and benefits			
28,251	Contributions	3	28,337
849	Transfers in	4	4,311
29,100			32,648
(26,926)	Benefits	5	(25,702)
(3,488)	Leavers	6	(1,258)
(636)	Administration	7	(613)
(31,050)			(27,573)
(1,950)	Net additions (withdrawals) from dealings with members		5,075
Returns on Investments			
(1,303)	Investment management expenses	8	(1,282)
11,274	Investment income	9	10,196
89,798	Change in market value of investments	10	14,174
99,769	Net returns on investments		23,088
97,819	Net increase/ (decrease) in the Fund during the year		28,163
262,652	Net assets of the scheme at start of year		360,471
360,471	Net assets of the scheme at end of year		388,634

Net Asset Statement			
31 March 2010 £'000		Note	31 March 2011 £'000
360,440	Investment assets	11	388,686
(78)	Investment Liabilities	11	(164)
460	Current assets	12	413
(351)	Current Liabilities	13	(301)
360,471	Net assets of the scheme at end of year		388,634

The financial statement summarise the transactions of the scheme and the net assets of the fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial position of the scheme which does take account of such obligations, is shown within notes 41 to 43 and these financial statements should be read in conjunction with them.

I certify that the Pension Fund Account and Net Assets Statements present a true and fair view of the income and expenditure in 2010/11 and the Pension Fund's financial position as at 31st March 2011.

Andrew Blake-Herbert, CPFA
Group Director Finance and Commerce
Date: 29 June 2011

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a statement from the auditor) Regulations 1996, and with guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

2. Accounting Policies

The Financial Statements have been prepared on an accruals basis but transfer values are included on a cash basis in accordance with the SORP.

Normal contributions are recognised when they are deducted from payroll for employee contributions. Employer contributions are recognised on the same basis. Employer augmentations are recognised in accordance with the agreement under which they are paid, or in the absence of an agreement on a receipts basis.

Investments are valued at the bid price at the year end date with any surplus or deficit on valuation being debited/ credited to the Fund account.

Holding derivatives is permitted within the relevant fund manager mandate.

Future contracts are valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract.

Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

A proportion of relevant officers' salary costs, including related on costs, has been charged to the Fund.

Stock lending is only permitted by the Fund's passive equity manger State street, on the basis that they have agreed to indemnify the fund against any loss arising from insufficient collateral being posted as part of the stock lending programme.

3. Contributions

	2010/11 £'000	2009/10 £'000
Employers		
Normal:		
Havering	13,057	13,239
Scheduled Bodies	2,072	1,939
Admitted Bodies	560	568
Deficit funding:		
Havering	5,734	5,305
Augmentation:		
Havering	311	650
Scheduled Bodies	63	57
Admitted Bodies	2	71
Employer Total	21,799	21,829
Members		
Normal:		
Havering	5,506	5,395
Scheduled bodies	723	690
Admitted bodies	160	167
Additional contributions:		
Havering	127	149
Scheduled bodies	21	19
Admitted bodies	1	2
Members Total	6,538	6,422
	28,337	28,251

Note: Some employees made additional voluntary contributions (AVC's) of £99,053 (£83,256 09/10) excluded from the statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2010/11 were £72,366 to the Prudential and £26,687 to Standard Life. These amounts are not included in the Pension Fund Account in accordance with regulation 5[2] c of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

4. Transfers In

	2010/11 £'000	2009/10 £'000
Individual transfers in from other schemes	4,311	849

5. Benefits

	2010/11 £'000	2009/10 £'000
Pensions		
Havering	20,766	20,426
Scheduled Bodies	327	269
Admitted Bodies	197	106
Pension Total	21,290	20,801
Commutation & Lump Sum Retirements		
Havering	3,426	4,732
Scheduled Bodies	360	219
Admitted Bodies	128	426
Commutation Total	3,914	5,377
Lump sum death benefits		
Havering	161	748
Scheduled Bodies	165	0
Admitted Bodies	172	0
Death Benefits Total	498	748
	25,702	26,926

6. Payments To and On Account of Leavers

	2010/11 £'000	2009/10 £'000
Refunds to members leaving service	1	5
Individual transfers to other schemes	1,257	3,483
	1,258	3,488

7. Administrative expenses

	2010/11 £'000	2009/10 £'000
Administration & Processing	499	568
Actuarial Fees	63	14
Audit Fees	35	35
Other Fees	6	6
Other Expenses	10	13
	613	636

8. Investment Management Expenses

	2010/11 £'000	2009/10 £'000
Administration, management and custody	1,224	1,224
Performance measurement services	11	11
Other Advisory Fees	47	68
	1,282	1,303

9. Investment Income

	2010/11 £'000	2009/10 £'000
Income from Fixed Interest Securities	4,702	4,873
Dividends from equities	4,419	5,157
Income from pooled vehicles	617	915
Cash & Deposits	128	53
Other	117	13
Other Income		
Foreign Exchange Profits/(Losses)	213	263
Total Income	10,196	11,274

10. Investments

	Value at 31 March 2010 £'000	Restated Value at 31 March 2010 £'000	Purchases at cost and derivative payments £'000	Sales Proceeds and derivative receipts £'000	Change in Market Value £'000	Cash & Other Movements £'000	Value at 31 March 2011 £'000
Equities	204,403	204,403	93,987	(91,218)	(913)	(110,121)	96,138
Derivatives	(78)	(78)	0	0	(80)	(6)	(164)
Fixed interest Securities (*)	78,815	78,836	109,460	(114,592)	2,430	0	76,134
Index-linked Securities	28,271	28,250	211,670	(204,968)	2,303	0	37,255
Pooled Investment Vehicles	31,891	31,891	2,454	(11,045)	10,563	131,902	165,765
Cash instruments	450	450	7,942	(8,392)	0	0	0
Cash deposits (fund managers)	4,280	4,280	0	0	(11)	(1,614)	2,655
	348,032	348,032	425,513	(430,215)	14,292	20,161	377,783
Cash deposits (banks)	6,300	6,300				(6,300)	0
Short term investments	4,763	4,763				3,732	8,495
Other Investment Balances	1,267	1,267			(118)	1,094	2,243
	360,362	360,362	425,513	(430,215)	14,174	18,687	388,521

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The cash and other movements include assets that were transferred between fund managers as part of the investment restructuring.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year as supplied by the Fund's custodian amounted to £564,898 (2009/10 £459,270). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

11. Investments

	2010/11 £'000	Restated 2009/10 £'000
Equities		
UK Quoted	90,970	127,865
Overseas quoted	5,168	76,538
	96,138	204,403
Fixed Interest Securities		
UK Public	10,963	20,512
UK Private	58,527	56,569
Overseas Public (*)	6,644	1,332
Overseas Private (*)	0	423
	76,134	78,836
Index-Linked Securities		
UK Public	33,690	26,581
UK Private	564	761
Overseas Public (*)	3,001	908
Overseas Private (*)	0	0
	37,255	28,250
Derivative Contracts		
Futures	0	6
Forward FX Contracts	(164)	(84)
	(164)	(78)
Pooled Investment Vehicles		
UK Managed Funds - Other		
UK Quoted	146,141	2,209
UK Unquoted	19	46
Overseas	0	8,877
Property	1,084	3,197
UK Unit Trust		
UK Property	18,521	17,562
	165,765	31,891
Cash Instruments		
UK	0	450
	0	450
Cash Deposits		
Managers	2,655	4,239
Futures Cash commitment	0	41
	2,655	4,280
Cash Deposits		
Banks	0	6,300
	0	6,300
Short Term Investments		
L.B. of Havering	8,495	4,763
	8,495	4,763

11. Investments (continued)

	2010/11 £'000	2009/10 £'000
Other Investment balances		
Outstanding Sales	1,439	1,017
Investment income	1,504	1,658
Outstanding dividend and recoverable withholding tax	568	899
Outstanding Trades	(1,266)	(2,307)
Investment Income	(2)	0
	2,243	1,267
Total Investments	388,521	360,362

(*) Reclassification of asset from a Fixed Interest security to Index linked Security as shown below:

	Restated 09/10 £000's	Original 09/10 £000's	Movement £000's
Fixed Interest Securities			
Overseas Public	1,332	1,568	(236)
Overseas Private	423	166	257
	1,755	1,734	21
Index Linked Securities			
Overseas Public	908	672	236
Overseas Private	0	257	(257)
	908	929	(21)

12. Current Assets

	2010/11 £'000	2009/10 £'000
Pension Grants	17	16
Contributions due from Employers	312	345
Contributions due from members interest	84	85
	0	14
Current Assets	413	460

13. Current Liabilities

	2010/11 £'000	2009/10 £'000
Unpaid Benefits	(87)	(17)
Accrued Expenses	(214)	(334)
Current Liabilities	(301)	(351)

14. Related Party Transactions

There were no transactions with related parties other than those disclosed elsewhere within the accounts. During the year fees were paid to certain trustees for their services to the scheme. In 2010/11, £0.499m was paid to the Council for administration (£0.568m in 2009/10) and £19.102m (£19.194m in 2009/10) was paid by the Council to the Pension Fund in respect of employer's contributions. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

15. Actuarial Valuation

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the Fund to ensure that present and future commitments can be met. The rate of employer's contributions paid by the Council in 2010/11 was 22% of pensionable pay as determined by the actuarial valuation of the Fund as at the 31st March 2007.

The most recent valuation of the Fund was carried out at the 31st March 2010.

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2010 valuation were as follows:

Assumptions	Rate
Discount Rate for Period	6.3%
Pay increases *	4.8%
Price inflation/Pension increases	3.3%
Valuation of assets	Market Value

* Plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% for 10/11 11/12 and 12/13, 3.3% for 13/14 and 14/15 before reverting to 4.8% thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.6 years
Future Pensioners *	23.8 years	26.5 years

* Future pensioners are assumed to be age 45 currently

The value of the Fund's assets was actuarially assessed as £360.9m, as part of the 2010 valuation, which was sufficient to meet 61.3% of its accrued liabilities of £588.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund regulations, it has been necessary to set the employers' contribution for the Council in line with the actuary's recommended employer's contribution rates as follows:

	Future Service %	Past Service %	Total % of Pensionable Pay
April 11 to March 12	15.6	6.4	22.0
April 12 to March 13	15.6	6.4	22.0
April 13 to 14	15.6	6.4	22.0

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank