

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
14 March 2017 (7.00 - 9.00 pm)**

Present:

COUNCILLORS

Conservative Group +Robby Misir, Jason Frost and Melvin Wallace

Residents' Group Stephanie Nunn and Nic Dodin

East Havering +Ron Ower

Residents' Group

UKIP Group David Johnson (Chairman)

Trade Union Observers: John Giles and Andy Hampshire

Apologies were received for the absence of Councillors John Crowder and Clarence Barrett.

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

40 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 13 December 2016 and of the Special meeting held on 23 January 2017 were agreed as a correct record and signed by the Chairman.

41 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2016

The Committee considered a report that provided an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2016. The performance information was taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The Committee noted that the net return on the Fund's investments for the quarter to 31 December 2016 was 1.3%. It was noted that the performance matched the tactical benchmark and represented an outperformance of 7.0% against the strategic benchmark.

The overall net return of the Fund's investments for the year to 31 December 2016 was 14.5%. The return represented an outperformance of 1.7% against the tactical combined benchmark and under performance of - 5.7% against the annual strategic benchmark. The annual strategic benchmark was a measure of the fund's performance against a target based upon gilts + 1.8% (the rate which was used in the valuation of the funds liabilities).

The report informed the Committee on the implications of the shortfall.

The Committee were advised that officers measured each fund managers' annual return for the new tactical combined benchmark and these results were detailed later in the report.

Following a brief discussion the Committee **agreed** the following recommendations:

- 1) Noted the summary of the performance of the Pension Fund within this report.
- 2) Considered the Hymans performance monitoring report and presentation attached to the report
- 3) Received a presentation from the Fund's Bonds Manager (Royal London) and the Fund's Property Manager (UBS).
- 4) Considered the quarterly reports provided by each investment manager.
- 5) Considered and noted any Corporate Governance issues arising from voting as detailed by each manager.
- 6) Considered any points arising from officer monitoring meetings (section 4 refers).
- 7) Noted the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

42 2016/17 FUND EXTERNAL AUDIT PLAN - HAVERING PENSION FUND

The Committee received details of the an Audit Plan as issued by Ernst & Young LLP for the work they plan to undertake for provision of an audit opinion on the pension fund accounts for the year ending 31 March 2017.

The report informed that Ernst and Young plan to provide an audit opinion on the financial statements of the Havering Pension Fund and give a true and fair view of the financial position. The plan would also include reviewing the Pension Fund's Annual Report.

It was expected that the audit of accounts would be completed by August and the final audit report presented to the Audit Committee and Pensions Committee at the September 2017 meetings.

The Committee **noted** the 2016/17 Audit Plan report and reported that they had no matters to report that they believed would influence the audit.

43 LOCAL PENSIONS BOARD - ANNUAL REPORT 2015/16

The Committee **noted** the first report of the Havering Local Pensions Board.

44 EXCLUSION OF THE PUBLIC

45 EXEMPT MINUTES

46 HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING DECEMBER 2016

The Committee received an overview and update from Hymans Robertson on the Pension Funds' performance in the quarter ending 31 December 2016.

The Committee was informed of the factors affecting fund performance during the quarter, and other material issues.

Market Summary

The Global Equity markets saw growth over the quarter, after a subdued start, boosted by accommodative monetary policies. Both UK Gilt and US Treasury bond yields rose over the quarter leading to falls in government bond prices. However, Global credit markets outperformed government bonds as credit spreads narrowed. Overall it was a relatively strong quarter for the commercial property market, as capital values rose.

Fund Performance

The total value of the fund increased by c. £8m to £648.3m as at 31 December 2016. The total return on the Fund's assets over the quarter was 1.4%, slightly behind the asset benchmark return. Relative to the strategic benchmark, the Fund outperformed over the last quarter.

The Baillie Gifford Global Equity fund underperformed the broader market.

The Ruffer's Absolute Return fund and Baillie Gifford's DGF outperformed their benchmarks over the quarter, whilst the GMO Real Return fund underperformed.

The RLAM bond mandate delivered negative returns in absolute terms, but outperformed the broader market.

Investment manager changes

The majority of the Fund's remaining direct holdings in the Ruffer Absolute Return portfolio transferred into the London CIV during quarter 3, 2016, however, a small direct holding of c.£12k remained. It was expected to be transferred to the London CIV in due course. In addition, the report outlined that the Ruffer Absolute Return strategy, both Baillie Gifford strategies were accessed via the London CIV.

An improvement in the fund's manager's rating for the GMO Real Return fund following positive meetings with their investment team. It was noted that Hymans Robertson rated the fund a "Retain". The fund was previously downgraded to "On Watch" in May 2016 but Hymans Robertson continue to engage with and monitor the manager closely.

Asset Allocation

The Fund's strategic asset allocation was amended following the quarter end to reflect a reduction in the allocation to multi-asset mandates and an increase in equity allocation although, on a look through basis, the overall allocation to equities remained broadly unchanged at c44%

The Committee previously agreed to rebalance from bonds and cash in favour of property and Multi-Asset funds, with the associated transactions due to be completed in Q1 2017.

47 ROYAL LONDON (BONDS) - PERFORMANCE REPORT

Rob Nicholson, Client Relationship Director and Richard Nelson, Senior Credit Fund attended the meeting to update the Committee on the mandates performance.

The Committee noted that the objective of the portfolio was to outperform the composite benchmark by 1.25% per annum net of fees, measured over rolling 3 year periods.

In order to achieve this target the following funds were permitted for investment:

The following funds are permitted for investment:

- RL Sterling Extra Yield Bond Fund
- RL Duration Hedged Credit Fund
- RL Global High Yield Bond Fund
- RL Short Duration Global High Yield Bond Fund
- RL Short Duration Credit Fund
- RL Short Duration Gilt Fund

- RL Absolute Return Government Bond Fund

The Committee noted that the value of the funds had dropped as at 31 December 2016 to £138.40m from £143.54m in 30 September 2016m.

In conclusion the Committee was informed that the current global economic expansion would be sustained with the impact of the Brexit vote centred on the UK and eurozone economies; loose monetary policy, low historic bond yields and a low oil price would remain key supports.

Markets were likely to remain volatile as the full implications of Brexit remains unclear.

It was also indicated that corporate bond prices remains attractive; it was expected that the funds would outperform gilts over the next three years

The Government bond market also remains somewhat pessimistic about the prospects for global growth; it was expected that global bond yields to move gradually higher.

The Committee **thanked** the Royal London representatives for their presentation.

48 **UBS (PROPERTY) - PERFORMANCE REPORT**

Howard Meaney, Head of Real Estate UK & Senior Portfolio Manager and Jonathan Hollick Assistant Portfolio Manager, UBS Triton attended the meeting to advise the Committee on the fund's performance.

The pooled fund was valued at £783m with a net initial yield of 4.81%, with the Fund's investment being approximately about £33m.

The Committee noted that quarter 4 performance recorded a total return of 2.31%. The Fund had outperformed its benchmark over one, two and three-year periods as at quarter 4, 2016. This resulted in a 3.8% annual distribution yield.

The Committee was informed of the following key activities and transactions that indicated satisfaction with performance to date and the prospects for the future:

- Income focused, with forecast distribution yield of 4.7% in 12 months
- Dominant assets in growth locations with long-term embedded asset management potential
- Very high-quality and diversified investment portfolio with strong tenant and lease profiles
- Bias towards forecast growth sectors: industrial/logistics, retail warehousing and student accommodation
- Experienced and stable team

- Best-in-class corporate governance
- Leading "Green Star" fund in GRESB 2014, 2015 and 2016 real estate assessments

The Committee **thanked** UBS Triton representatives on the performance of the Real Estates and Private Markets.

Chairman