

**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:**

5M

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