Havering
LONDON BOROUGH

PENSIONS COMMITTEE Report

15 March 2016

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2015**
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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 31 December 2015

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

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2015. 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 31 December 2015 was **2.8%.** This represents an out performance of **0.9%** against the tactical benchmark and an out performance of **4.6%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 December 2015 was **1.8%.** This represents under performance of **-0.9%** against the tactical combined benchmark and under performance of **-1.2%** against the annual strategic benchmark. The annual strategic benchmark is a measure of the fund's performance against a target based upon gilts + 1.8% (the rate which is used in the valuation of the funds liabilities). The implications of this shortfall are discussed further in paragraphs 1.2 and 1.3 below.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14^{th} 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 Bonds Manager (Royal London) and the Fund's Property Manager (UBS).
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 and 2.3 refers).

REPORT DETAIL

1. Background

1.1 The Fund undertook a full review of the Statement of Investment Principles (SIP) during 2012/13 and following the appointments of the Multi Asset Managers this almost completes the fund's restructuring. The Fund is still considering options for an investment in Local Infrastructure.

1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 1.8% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit. This current shortfall is driven by the historically low level of interest rates which drive up the value of gilts (and consequently the level of the fund liabilities). Whether interest rates will remain at those levels for the longer term and the implications for the Fund's Investment strategy is a matter which will need to be considered at the time of the next actuarial review.

1.3 Our Investment Advisors have stated that there are things that could have been done to protect the fund against falling interest rates (e.g. hedging) but they do not believe that this action would have been appropriate. The Fund is already partially protected through its investments with Royal London and given the long term nature of the fund they believe that the fund objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, inflation and expectations of future inflation has fallen meaning that the actual benefit cash flows expected to be paid from the fund will be lower.

1.4 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.

1.5 The committees decision to change the return objective of the bond manager (managed by RLAM) to 1.25% from 0.75% become effected from 1 November 2015. This will allow the manager greater flexibility in the management of the mandate and the ability to invest a proportion of the mandate in higher yielding bonds.

1.6 The following table reflects the asset allocation split :

Asset Class	Target allocation	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	Baillie Gifford (Diversified Growth Fund)	Pooled	Active	UK Base Rate plus 3.5%
	20%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
Absolute Return	15%	Ruffer	Segregated	Active	LIBOR+
Property	5%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	17%	Royal London	Segregated	Active	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years. Plus 1.25%*
Infrastructure	3%	State Street Global Assets –Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project.			

*0.75% prior to 1 November 2015

1.7 UBS, SSgA, GMO and Baillie Gifford manage the assets on a pooled basis. 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.

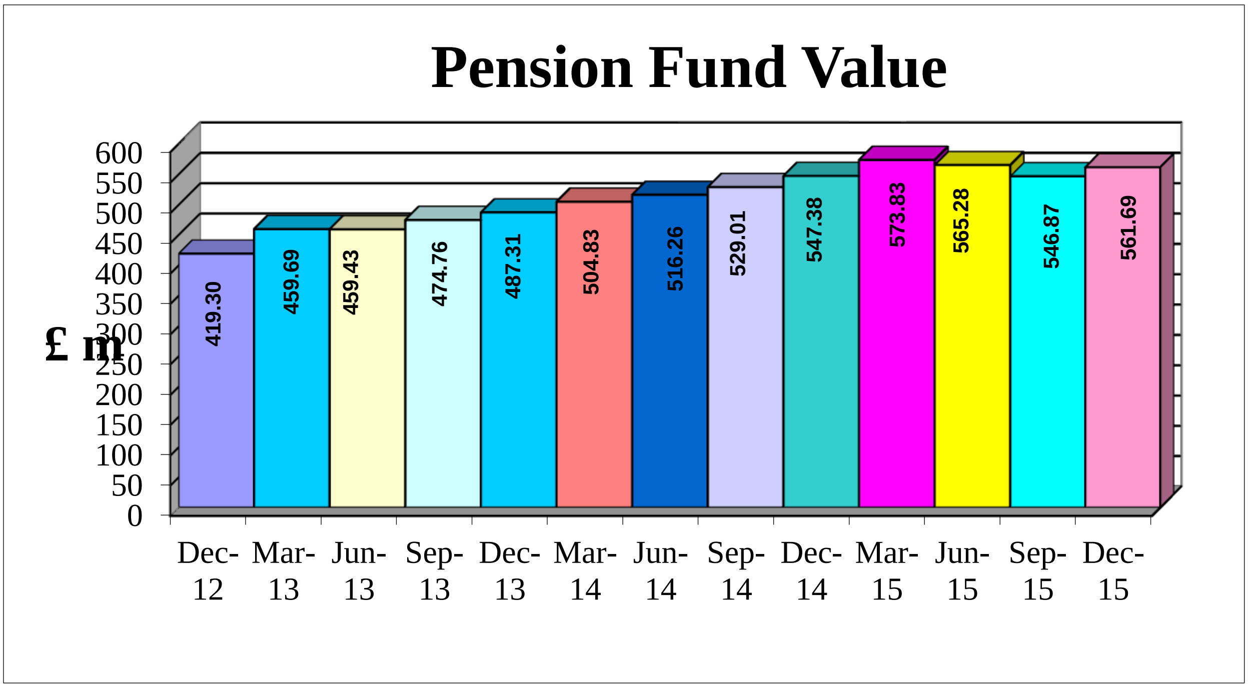
1.8 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.9 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 are the pooled Managers (SSgA, UBS, Baillie Gifford and GMO) and Ruffer who will attend two meetings per year, one with Officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements will be made for additional presentations.

1.10 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 31 December 15 was **£561.69m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes accrued income. This compares with a fund value of £546.87m at the 30 September 15; an **increase** of **£14.82m**. The movement in the fund value is attributable to an increase in assets of £14.99m and a decrease in cash of (£0.17m). The internally managed cash level stands at **£9.66m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£9.66m** follows:

CASH ANALYSIS	**2013/14 31 Mar 15**	**2014/15 31 Mar 15 Updated**	**2015/16 31 Dec 15**
	£000's	£000's	£000's
Balance B/F	**-3474**	**-5661**	**-7599**
Benefits Paid	32552	33568	25767
Management costs	2312	1600	611
Net Transfer Values	-1131	-135	640
Employee/Employer Contributions	-45659	-35306	-29699
Cash from/to Managers/Other Adj.	9825	-1618	669
Internal Interest	-86	-47	-49
Movement in Year	**-2187**	**-1938**	**-2061**
Balance C/F	**-5661**	**-7599**	**-9660**

2.3 Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that should the cash level fall below the de-minimus amount of £3m this should be topped up to £6m. This policy includes drawing down income from the bond and property manager when required.

2.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and introduced a discretion that allows the Deputy Chief Executive Communities and Resources to exceed the threshold to meet unforeseeable volatile unpredictable payments.

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 31.12.15	**12 Months to 31.12.15**	**3 Years to 31.12.15**	**5 years to 31.12.15**
Fund	2.8%	1.8%	8.9%	7.2%
Benchmark return	1.9%	2.7%	7.8%	6.7%
*Difference in return	0.9%	-0.9%	1.0%	0.5%

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 + 1.8% Net of fees) is shown below:

	Quarter to 31.12.15	**12 Months to 31.12.15**	**3 Years to 31.12.15**	**5 years to 31.12.15**
Fund	2.8%	1.8%	8.9%	7.2%
Benchmark return	-1.7%	3.0%	8.9%	12.0%
*Difference in return	4.6%	-1.2%	0.0%	-4.3%

Source: WM Company

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

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 31 DECEMBER 2015)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	-1.07	-1.42	**0.35**	-1.23	**0.16**
UBS	3.06	2.84	**0.22**	n/a	**n/a**
Ruffer	1.00	0.10	**0.90**	n/a	**n/a**
SSgA Global Equity	8.06	8.08	**-0.02**	n/a	**n/a**
SSgA Fundamental Index	6.92	6.95	**-0.03**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.14	0.09	**0.05**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	10.50	8.10	**2.40**	8.73	**1.78**
Baillie Gifford (DGF)	1.60	1.00	**0.60**	n/a	**n/a**
GMO	1.40	-0.20	**1.60**	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)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	0.36	-0.60	**0.96**	0.15	**0.21**
UBS	13.74	12.50	**1.24**	n/a	**n/a**
Ruffer	0.60	0.60	**0.00**	n/a	**n/a**
SSgA Global Equity	4.00	3.97	**0.03**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.51	0.36	**0.15**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	8.80	3.80	**5.00**	6.30	**2.50**
Baillie Gifford (DGF)	1.90	4.00	**-2.10**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- SSgA fundamental Index not invested for entire period
- GMO not invested for entire period

4. Fund Manager Reports

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

a) Representatives from Royal London are due to make a presentation at this Committee therefore a brief overview of their performance as at 31 December 2015 follows.

b) The value of the fund as at 31 December 15 decreased by -1.04% on the previous quarter.

c) The fund achieved a net return of -1.07% during the quarter but out-performed the benchmark for the quarter by 0.35%. Royal London outperformed the benchmark over the one year period by 0.96%. Since inception they outperformed the benchmark by 0.65%.

d) With effect from the 1 November 2015 the return objective was increased from 0.75% to 1.25% and following a change to the mandate's performance target and permissible investments, an exposure totalling 8.2% of Fund assets was established in the Royal London Sterling Extra Yield Bond Fund.

e) No governance or whistle blowing issues were reported.

4.2. Property (UBS)

a) In accordance with agreed procedures officers will only meet with representatives from UBS once in the year with the other meeting to be held with members. UBS last met with the members of the Pension Committee on the 17 March 2015 at which they covered the period ending up to 31 December 2014. Officers met with representatives from UBS on the 20 August 2015 at which a review of their performance as at 30 June 15 was discussed. Representatives from UBS are due to make a presentation at this Committee therefore a brief overview of their performance as at 31 December 2015 follows.

b) UBS delivered a return of 3.06% over the quarter, outperforming the benchmark by 0.22%. The Fund is ahead of the benchmark over the year by 1.24%.

c) Following the Pensions Committee meeting on the 15 December 2015 a briefing paper was issued to the members of the committee outlining a proposal for additional investments in the UBS Triton Property Fund. Members subsequently agreed to make a further investment of £6m. This will be funded from a withdrawal of cash from the SSgA Sterling Liquidity Fund. The transfer will take place during the quarter ending March 2016. As this initiative was over-subscribed the additional funding requirement was scaled back to £5.5m.

4.3. Multi Asset Manager (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. The Pensions Committee last met with Ruffer at the 22 September 2015 meeting at which their performance as at the end of June 15 was discussed. Officers last met with representatives from Ruffer on 05 February 2015 at which a review of their performance as at 31 December 2015 was discussed.

b) Since Ruffer last met with members the value of the fund has decreased by 3.39% and over the quarter ending December 15 the value has increased by 1.3%.

c) Ruffer delivered a return of 1% (net of fees) over the quarter, outperforming the benchmark by 0.9%. The Fund performance matches the benchmark over the year.

d) Ruffer's current portfolio's asset allocation is split as 36% in equities, 39% in bonds with the remaining 25% in cash, gold and illiquid strategies (protective options)

e) The biggest contributors to the positive performance were allocations to Japanese equities, as the market rebounded after a volatile quarter, stock selection in the US performed strongly on the back of improved results and forecast upgrades. Following a strong run in the US Dollar profits were taken and hedged, most of it back into UK sterling at the start of the following quarter.

f) The main detractor from performance was the protective option positions which proved to be unnecessary as equity markets rebounded and volatility subsided. The US raising interest rates meant that UK Index linked Bonds lost ground which detracted from performance.

g) Portfolio activity in the quarter:

   i. Equities - in the first part of the quarter Ruffer topped up equities that they felt were oversold as a result of the Chinese slowdown. Due to declining confidence in the second part of the quarter they reduced equities to 36% across geographies, which were the lowest weighting since pre-crisis. Ruffer took profits in Freeport, Texas instruments, Microsoft and ITV and sold RBS and Daiwa.

   ii. Currencies - Ruffer increased the Yen position as Japan is still pursuing the most aggressive monetary stimulus among the major economies, the Bank of Japan's determination to invigorate the market is now showing results.

iii. Protective Strategies – Volatility returned to levels that enabled them to add volatility options, in the second part of the quarter they raised cash weighting.

h) Ruffer was asked what the key drivers of performance for the year as a whole were and their outlook for 2016. They said the main drivers in 2015 was the slowdown in China's growth, continuing low interest rates, the continuing fall in oil prices and commodity industries and the increase in volatility being largely unrewarded. Japan made a strong recovery in the quarter ending December to end the year as the best of the major stock markets. The allocation to Japanese equities and stock selection in the US were the biggest contributor to performance. Ruffer feels that there will not be much change in drivers for 2016 and overall are feeling more cautious than usual as they survey the prospects of 2016.

i) Ruffer was also asked if they have sufficient risk in the portfolio given the material change to the allocations to cash and gold and equity holdings now under 40%. Ruffer explained that they recently increased their equity exposure and added to commodities and that they are positioned with enough risk if the economy gets more optimistic.

j) A discussion took place with Ruffer on whether they were likely to join the London CIV and they said that they are very keen to join and were scheduled to have a meeting with the London CIV during February indicating their desire to join. They need to establish whether they had fee capacity to agree to the CIV's discounted fee rate and mentioned that if they did join the CIV with discounted fees they did not expect this to reduce the level of service that they provided.

k) No whistle blowing issues or governance was reported.

4.4. 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 last met with representatives from SSgA on the 11 May 2015 at which a review of their performance as at 31 March 15 was discussed. SSgA last met with the members of the Pension Committee on the 15 December 2015 at which they covered the period ending up to 31 September 2015.

b) A brief overview of their performance as at 31 December 2015 follows.

c) The SSgA Sterling Liquidity fund has outperformed the benchmark by 0.05% over the quarter. Since inception they have outperformed the benchmark by 0.13%

d) The SSgA Global Equity (passive) mandate has underperformed the benchmark by -0.02% over the quarter. Since inception they underperformed the benchmark by -0.01%.

e) The new SSgA Fundamental Index commenced on the 20 August 2015. This mandate underperformed the benchmark by -0.03% over the quarter. Since inception they underperformed the benchmark by -0.02%.

f) Following the Pensions Committee meeting on the 15 December 2015 and a further decision to purchase additional units in the UBS Triton Property Fund, £5.5m will be withdrawn from the SSgA Sterling Liquidity Fund to fund this during the next quarter.

4.5. Global Equities Manager (Baillie Gifford)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 4 February 2016 at which a review of their performance as at 31 December 15 was discussed.

b) The value of the fund increased by 10.5% over the last quarter.

c) Baillie Gifford Global Alpha Mandate has outperformed the benchmark over the last quarter by 2.4% (net of fees). The fund outperformed the benchmark by 5.0% (net of fees) over the last year and since inception they have outperformed the benchmark by 2.7%.

d) Positive performance came from a wide range of stock contributors, with Amazon and Royal Caribbean Cruises and Ryanair making the strongest contributions. Baillie Gifford reported that there were no major challenges over the past quarter apart from the continuing fall in oil prices.

e) Detractors from performance mainly included companies in the Oil and Gas industries with Ultra Petroleum being the largest; however they continue to have confidence in this holding as it is very good operationally with a strong balance sheet. Rolls Royce is also continuing to struggle to cope with the changes in the Airline market.

f) Their fund positioning remains mainly unchanged over the past quarter, current positioning of the portfolio has holdings in Growth Stalwarts (strong Brands) 23%, Rapid Growth (fastest growth) 31%, Cyclical Growth (longer term performance) 33%, Latent Growth (stocks most out of favour with the markets) 12% and cash of 1%.

g) During the quarter ending December the activity in the portfolio showed that they purchased new stocks in Ainylam Pharmaceuticals, Grubhub, Autohome, Yandex, Sands China, and MTN. Increased holdings in Prudential, SAP, Facebook, Seattle Genetics MS&AD Insurance and CRH.

Completed Sales in Arcos Dorada and Tokyo Electron. They reduced holdings in Coca Cola HBC, Ryanair and Royal Caribbean Cruises.

h) Turnover of stock remained low, they have not reduced holding in the largest detractors of the portfolio as they are again mainly companies affected by the reduced oil prices, they still have an optimistic view for these companies which are operationally going as they would like, with strong balance sheets. However, they have reduced holdings in Royal Caribbean one of the best performing holdings, this was solely due to the size of the holding (3.9% of fund), Baillie Gifford do not like any stock to dominate the portfolio so limit stock holdings in any company to a maximum of 4%.

i) Performance from the strategy was strong in 2015 despite the uncertain Global economic outlook and general market volatility, we asked Baillie Gifford how they overcame these difficulties. They said that their basic strategy allows for these fluctuations in the market as they have a well-diversified portfolio across a broad range of asset classes. It helped that they had low exposure in oil, they reduced their holdings in oil and other oil related commodity holdings from 3% to 2%, and the low oil price has acted as a positive growth driver for holdings where oil is a major component of their costs.

j) We asked Baillie Gifford what they thought the main themes will be in 2016 and how will these themes have a bearing on investment policy for the fund. They said that the three themes that dominated 2015, slowdown in Chinese Growth, the prospect of US raising interest rates, and the continued weakness in oil and other commodity prices will continue to dominate 2016 markets. They said that their investment policy will not change and are encouraged by the number of investment opportunities competing for inclusion in the portfolio. Their opinion on the EU referendum was that from an investment angle they felt that there was no reason for concern; companies would continue to trade whatever happens.

k) We asked what impact the uncertainty around the pace of US interest rises will have on the fund given its 50% exposure to US stocks. They said when the US federal reserve announced a quarter point increase they were clear in their message that the Fed will only raise rates slowly, allowing time to assess the impact of this first modest move. Baillie Gifford have an element of the portfolio that will benefit from interest rises, businesses that hold cash balances, they said they believe a return to normal levels of interest rates should be interpreted as a clear sign of recovering economy.

l) Overall, Baillie Gifford’s outlook for the portfolio over the longer term is reasonably optimistic, whilst there are major uncertainties with the macro backdrop they see more reasons to be positive than negative, particularly when focused on the prospect of growth in the US and European recovery. They are encouraged by the number of new investment opportunities for inclusion in the portfolio and have a wide range of investment ideas coming up through their investment process. Their research agenda for 2016 include, Emerging Quality growth, businesses that will have strong long term structural growth prospects but will have suffered from several years of cyclical depressed demand. Technology Platforms and Energy and Industrial Market opportunities, also Growth Governance (laws and regulations to be more business friendly particularly in China, Japan and India).

m) No governance or whistle blowing issues were reported

4.6. Multi Asset Manager (Baillie Gifford Diversified Growth Fund)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 4 February 2016 at which a review of their performance as at 31 December 15 was discussed

b) The value of the fund increased by 1.6% over the previous quarter.

c) Baillie Gifford Diversified Growth Mandate out-performed the benchmark by 0.6% and underperformed the benchmark over the year by -2.1%.

d) The main contributors to performance were listed equities and the active currency position.

e) The main detractor from performance came from Emerging Market Bonds and High Yield Bonds.

f) There were few changes to asset allocation over the period, 1% was added to the US high yield exposure as spreads widen on the back of falling oil prices and decreased their emerging market debt exposure by 1% through the sale of a Brazilian linked bond as these prices rallied. Baillie Gifford no longer has any exposure in Brazil.

g) During the quarter Baillie Gifford made changes within their infrastructure holdings with the sale of two power transmission companies which were sold on valuation grounds. Some of the proceeds from these sales were invested in two companies operating in public private partnerships, International Public Partnership and John Laing Group.

h) In November they established a new currency position: long Japanese yen versus Korean won. They believe the Korean won needs to weaken, largely because of the economic challenges it faces, with poor competitiveness relative to China and Japan, with the yen having depreciated 30% against the won in recent years. Baillie Gifford is of the view that this lends valuable balance to the portfolio as a whole.

i) One of the attractions of the Diversified Growth fund was its focus away from equity markets so Baillie Gifford were asked what the rational was to increase the allocation to equities again by 2% over the year and were asked if this was an indication of a lack of opportunity elsewhere? They said the increased equities allocation was due to taking advantage of the strong equity market which they said could still go higher, while there is a lack of opportunity elsewhere. They said that they monitor the markets rigorously to minimise any potential losses if the equity markets fall significantly. They have a good regional mix which they are comfortable with. Their exposure to equities was the second largest contributor to performance this year.

j) Baillie Gifford noted that valuations across financial markets remain close to fair value and that recent market volatility has presented opportunities, we asked what opportunities have they taken to adjust asset allocation and how tactical are they in decision making. Baillie Gifford's response was that the continuing slump in oil prices affected US high yield bond prices (downwards) and they took advantage of the lower prices, increasing exposure to High Yield. They reduced exposure to emerging market bonds selling Brazilian EM bonds while prices rallied, but continued to have limited exposure to Emerging markets (less than 10%). They balance this risk exposure against some of their active currency positions, most notably being long the US dollar and recently long Japanese yen against Korean won, these positions should perform well in current circumstances where emerging market debt is struggling. It is no coincident that the performance of these two asset classes fall at opposite ends of their performance attribution in recent quarters, this is an essential part of the balance they look to give their portfolios.

k) Baillie Gifford's central expectation for moderate growth remains unchanged, with the immediate investment environment becoming more challenging. They are reasonably optimistic about economic growth and financial market returns, and are confident that the fund can continue delivering on its dual objectives.

l) No governance or whistle blowing issues were reported

4.7. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)

a) In accordance with agreed procedures officers will only meet with representatives from GMO once in the year with the other meeting to be held with members. GMO met with the members of the Pension Committee on the 23 June 2015 at which they covered the period ending up to 31 March 2015. Officers met with representatives from GMO on the 5 November 2015.

b) The fund achieved a net return of 1.40% during the quarter and out-performed the benchmark for the quarter by 1.60%. GMO underperformed the benchmark since inception by -5.45%.

c) The GMO investment is in a dynamic multi-asset fund, the GMO Global Real Returns UCITS Fund (GRRUF) and targets a return of CPI+5% (net of fees) over a full 7 year cycle. The Fund invests globally in equities, debt, money market instruments, currencies, instruments relating to commodities indices, REITS and related derivatives.

d) GMO philosophy is to buy undervalued assets with a long term view to assets returning to fair value.

e) The asset allocation within the portfolio was 43% Equities, 15% Alternative strategies, 21% Fixed Income and 21% Cash/Cash Plus.

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 will be distributed to members electronically.

2. Receive quarterly information from the Investment Managers, detailing new Investments made.

   - Points 1 and 2 are contained in the Managers' reports.

3. Voting – Where the fund does not hold a pooled equity holding, Members should select a sample of the votes cast from the voting list supplied by the managers (currently only Ruffer) 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:

  Royal London and UBS

- 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 implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Royal London Quarterly report to 31 December 2015
UBS Quarterly report to 31 December 2015
Ruffer Quarterly report 31 December 2015
State Street Global Assets report to 31 December 2015
Baillie Gifford Quarterly Reports 31 December 2015
GMO Quarterly Report 31 December 2015
The WM Company Performance Review Report to 31 December 2015