MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
14 September 2011 (7.30 - 9.20 pm)

Present:

COUNCILLORS

Conservative Group	Eric Munday (Chairman), Damian White (Vice-Chair), Roger Ramsey and Melvin Wallace
Residents' Group	Clarence Barrett
Labour Group	Denis Breading
Independent Residents Group	

Apologies were received for the absence of Councillors Jeffrey Tucker and John Giles.

All decisions were taken with no votes against.

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

32 MINUTES OF THE MEETING

The minutes of the meeting held on 22 June 2011 were agreed as a correct record and signed by the Chairman.

33 PENSION FUND PERFORMANCE MONITORING - QUARTER ENDING 30 JUNE 2011

The Committee received a report from officers on the performance of the Havering Pension Fund investments for the quarter ending June 2011. The net return on the fund's investments for the quarter was 1.5%, an outperformance 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 represented an out performance of 0.8% against the annual tactical combined benchmark and an out performance of 11% against the annual strategic benchmark.

(a) Hymans Robertson (HR)

HR advised the Committee that a dominant theme during the quarter was the debt crisis in Greece and how the matter might be resolved. Equities fell steeply as the 'crisis' reached its peak in mid-June. This was followed by a sharp rally, late in the quarter, as the European Union and IMF agreed a 'bail out.'

Data published during the quarter indicated a significant slowdown in economic growth in the US. In the UK economic growth during the first three months of 2011 (reported in quarter 2) merely offset the contraction recorded in the previous quarter. Economic strength I Germany and France masked weakness in the other Euro-zone countries. Global inflationary pressures intensified. Adding to the strains on the global economy.

Key events in the quarter were:

Global economy

- US central bank lowered its forecast for economic growth in 2011 and 2012
- Short-term interest rates were held in the UK, US and Japan: most increase in euro-zone
- Rating agencies assigned a negative outlook on US government debt; the political stand-off in agreeing the US debt limit had been unhelpful
- US confirm the end of its quantitative easing programme (effective end June)
- Japanese economy contracted for two consecutive quarters.

Equities

- US equities reached a post 'crisis' high in April on strong corporate results
- The strongest sectors relative to 'All world' Index were Health Care (+7.7%) and Consumer Goods (+5.9%); the weakest were Oil & Gas (-5.7%) and Financials/Technology (both -2.7%)

Bonds

- Index linked gilts outperformed fixed interest issues on concerns over inflation
- The yield differentials between highly indebted Euro countries and Germany widened further.

Due to economic uncertainty, market expectations for an increase in short-term interest rates had been pushed out, potentially in to 2012, despite inflationary pressures. Indications that the USA might engage in a further round of quantitative easing was a measure of its determination to support the economy if necessary.

HR also advised the Committee that the forecast for quarter 3 was for a further 6% to 7% drop in fund value.

The Committee were informed that the two portfolios with State Street had performed to their respective benchmarks over the quarter.

The Ruffer mandate had outperformed Libor by 0.9% over the quarter. The portfolio's returns since inception (a 10 month period) was 5.5% absolute and well ahead of Libor returns. Ruffer had advised HR that Robert ("Viscount") Tamworth, their Managing Director, would be retiring at the end of the year. Ruffer had indicated that this retirement was planned and that they had been looking for a replacement since the end of 2010. They had appointed David Francis (ex COO at Gartmore) to be Ruffer's COO from September 2011, when he joins. This would provide a 3 month overlap period with the outgoing MD to assist in the transition process. HR did not consider this to be a significant appointment.

HR informed the Committee that UBS returned 3% on the quarter outperforming the benchmark by 1.1%. Over the one year period the fund is ahead of benchmark by 2.4%, but still lags over the longer term.

(b) Standard Life Investments (SL)

SL advised the Committee of their performance during quarter 3, rather than looking back to quarter 2. They saw the key issues as :

- The down grade of the US debt
- Problems for the Euro, particular panic in Italy and the prospect of Greece defaulting. They advised that 25% of European debt was held in Italy.

As a result of these issues the market had performed badly and the Fund's investment had lost 5% in the quarter mainly during August.

In response to questions SL admitted that they had taken a significant hit but this was temporary. They had belief that the systems they had in place would enable them to rebound. Whilst the market had gone down the value of the companies they were investing in had not. Therefore, in the long term they would regain their position.

(c) Royal London Asset Management (RL)

Since the end of quarter 2the fund invested by Royal London on our behalf had grown to £96,242,651.87. In quarter 2 Royal London had outperformed the benchmark by 0.2%. For the year this represented an outperformance of 0.9%, although since inception they were -0.3% relative to benchmark. RL advised the Committee that they had no investment in Greek, Italian nor Spanish bonds.

Having considered the officer's report, the report from Hymans Robertson and the presentations from Standard Life and Royal London the committee:

i) **Noted** the summary of performance of the Pension Fund, i.e. an increase of £6.3m;
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.

34 **PENSION FUND ACCOUNTS 2010/11**

The Committee was presented 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. Officers advised the Committee that the Council's external auditors PricewaterhouseCoopers had raised no significant matters with regard to the Pension Fund accounts.

The Committee were informed of the following key items in the accounts:

- The Net Assets of the Fund had increased to **£388m** for 2010/11 from £360m in 2009/10, a net increase of £28m.

- The net increase of £28m was compiled 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.

The Committee **noted** the Havering Pension Fund Accounts as at 31st March 2011.

35 **SPECIAL MEETINGS**

Committee were informed that two special meetings of the Committee had been arranged for the 15th and 16th December 2011. Both meetings will commence at 2.00pm, the first will consider applications for the position of Active Global Equities Manager and the second applications for the position of Fund Adviser.

____

Chairman