MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford
24 March 2011 (7.00pm – 9.18pm)

Present:

COUNCILLORS

Conservative	Eric Munday (in the Chair), Roger Ramsey and Damian White
Residents	Ron Ower
Independent Residents	Jeffrey Tucker
Trade Union Observers	John Giles (Unison)

Apologies for absence were received from Councillors Breading and Wallace.

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.

24. MINUTES OF THE MEETING

The minutes of the meetings held on 1 December 2010 and 28 February 2011 were agreed as a correct record and signed by the Chairman.

25. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2010

The Committee received a report from officers on the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2010. The net return on the Fund’s investments for the quarter was 5.1%. This represented an out performance of 0.5% against the combined tactical benchmark and an outperformance of 8.1% against the strategic benchmark.

The overall net return of the Fund’s investments for the year to 31 December 2010 was 11.6%. This represented an underperformance of -1.9% against the annual tactical combined benchmark and an under performance of -0.2% against the annual strategic benchmark.

a) **Hymans Robertson (HR)**

HR informed the Committee that the positive trend in equity markets over the summer months had continued during the final quarter of 2010. Key events during the quarter were:

Global Economy

- Momentum of economic recovery strengthens in all major markets
- USA announces second round of quantitative easing ($600bn)
- Austerity packages announced in Ireland, Spain and Portugal
- Sharp rise in commodity prices adds to concerns over inflationary pressures
- Short-term interest rates held at record lows despite economic recovery

Currencies

- Euro under pressure on concerns over cost of Irish bailout and potential support required by other Euro-zone countries
- Yen strength continues; +3.6% over the quarter and +18.3% for the year against Sterling

Bonds

- Yield spread between UK and German government bonds narrows as UK public deficit is tackled
- Markets uncertain about appropriate measures to resolve future debt problems in Euro-zone (concept of Euro bond raised)
- Yield differentials between peripheral Euro countries and Germany increase despite Irish bail out.

The fourth quarter of 2010 was the first full quarter with the Fund's new manager structure in place. It was also the last quarter for which Alliance Bernstein would manage the Fund's global equities. Assets were transferred from Alliance Bernstein on 23 February 2011 and moved to State Street Global Advisers; this change would be reflected in the first quarter of 2011.

HR advised the Committee that Alliance Bernstein had performed in line with the MSCI All Countries Index (net) over the final quarter of 2010. Since inception, however, the relative returns continued to languish at -2.9%.

One of the new Managers, State Street Global Advisors, had marginally underperformed the benchmark by 0.2% over the quarter. HR stated that this was within the bounds they would expect from a passive manager.

The UBS Triton fund underperformed by 0.4% during the quarter. Due to the troubles the fund experienced in 2008 and 2009 the returns since inception were 2.8% behind benchmark. However, 4 quarters of positive absolute returns had amounted to a significant return over the year of 11.8%.

The Total Fund had performed broadly in line with benchmark over the quarter. Relative returns had been helped by the outperformance of Standard Life and Ruffer. Since inception returns had improved slightly to -1.5% relative to benchmark (net of all management fees.)

b) Ruffer

David Ballance, Investment Director, attended the meeting to present details of the Fund's performance since inception. As at the end of February 2011 Ruffer LLP had £11.1billion under management, of which £3.8 billion was managed for 154 pension schemes. He informed the Committee that Ruffer was not accepting any new pension scheme clients although they would accept additional funds from existing clients.

The Ruffer Investment philosophy and approach could be defined as follows:

- Two investment objectives defining 'absolute returns'
  - Capital preservation: not to lose money on a rolling 12 month basis
  - Consistent positive returns: significantly greater than the return on cash
- 'Long-only' investment approach
  - all conventional asset classes; global equities and bonds and currencies
  - active asset allocation and focused stock selection.

In response to questions the Committee were advised that Jonathan Ruffer would be standing down as CEO next year but would be remaining as Chairman. He would be replaced by Henry Maxey. This would not affect how the company was run.

As at 28 February the portfolio value had increased by 6.3% since the funds were placed with Ruffer on 8 September 2010. Up to date figures showing the funds value at 23 March 2011 were tabled at the meeting.

The Committee **noted** the positive report and thanked Mr. Ballance for his presentation.

c) Standard Life

David Cumming, Executive Director, Head of UK Equity, delivered a presentation on Standard Life's performance in quarter 4. Relative performance saw a strong recovery in the second half of 2010. Standard Life was of the opinion that the global recovery would continue. Their investment process was generating positive ideas, and they were confident in market levels and future outperformance.

Performance in the fourth quarter was a return of 8% which represented a Relative Return over Benchmark of 0.6%. Since inception Standard Life had achieved a 6.5% return on the Pension Fund, a Relative Return over Benchmark of -0.4.

The Committee **noted** the report and thanked Mr. Cumming for his presentation.

d) Royal London

Paul Rayner, Head of Government Bonds and Victoria Muir, Head of Client Services delivered a presentation on Royal London's performance in quarter 4. Royal London had outperformed for the 6th successive quarter. The absolute return on the portfolio was -1.9% (net of fees), slightly ahead of the benchmark return which was -2.1%. The returns since inception were now 0.3% ahead of benchmark.

The Royal London team explained their strategy and clarified why they were overweight in UK corporate bonds. These were expected to post the strongest relative returns as spreads narrowed.

The Committee **noted** the report and thanked the Royal London officers for their presentation.

Having considered the officers' report, the report from Hymans Robertson and the presentations from the three Fund Managers the Committee**:**

i) **Noted** the summary of performance of the Pension Fund, i.e. an increase of £19.64m 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.

26. PENSION FUND INVESTMENT STRATEGY

Further to considerations at the meeting on 28 February 2011 officers had submitted a report outlining the options available. This report considered the advice given by the Pension Fund Investment advisors in connection with the funds asset allocation and made recommendations to re-balance the fund.

Hymans Robertson was recommending that the allocation to Property should be at or near target. Although UBS Triton, the funds portfolio manager for Property, had experienced a period of poor returns in the last two to three years, their recent performance had improved (4 consecutive quarters of positive absolute returns had amounted to a significant return over the year of 11.8%.). Void rates (i.e. un-let properties) had been reduced substantially which had contributed to this turn round.

The absolute return mandate was managed by Ruffer and the majority of funds held by them were invested in equities and bonds. When the Investment Strategy was reviewed in 2008 Hymans Robertson had recommended an allocation of 10% to 15% to this asset class. In view of the Pension Fund's limited experience with this form of investment it had agreed to allocate 5% as an initial step. Hymans was now recommending that the allocation to Ruffer be increased to 10%, by reducing the allocation to bonds by approximately £18 million.

Having considered the advice of officers, the recommendations from Hymans Robertson and the presentation from Ruffer the Committee **agreed** to:

1) Approve the allocation of £7million in cash to the property portfolio manager, UBS Triton;

2) Increase the absolute returns mandate by 5% and reduce the mandate with the Global Bonds Manager by 5%.
3) Increase the funds allocated to Ruffer from 5% to 10% to be funded by a reduction in the allocation to the bond manager, Royal London. This allocation was expected to be in the region of £18 million;

4) Receive a further report from Hymans Robertson at the next meeting on the rebalancing of the active and passive management of UK Equities.