



Meeting of the

PENSIONS COMMITTEE

Thursday, 26 June 2008 at 6.30 p.m.

A G E N D A

VENUE

COMMITTEE ROOM 1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE,
5 CLOVE CRESCENT, LONDON, E14 2BG

| Members: | Deputies (if any): |
|--|----------------------------|
| Chair: | |
| Vice – Chair: | |
| Councillor Helal Abbas | Councillor M. Shahid Ali |
| Councillor Marc Francis | Councillor Harun Miah |
| Councillor Denise Jones | Councillor M. Mamun Rashid |
| Councillor Shiria Khatun | |
| Councillor Joshua Peck | |
| Councillor Fozol Miah | |
| (Note: The quorum for this body is not less than one third of the Committee i.e 3 Members). | |

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Zoe Folley, Democratic Services
Tel: 020 7364 4877 E-mail: Zoe.Folley@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 26 June 2008

6.30 p.m.

| | PAGE NUMBER | WARD(S) AFFECTED |
|---|----------------|---------------------|
| 1. ELECTION OF CHAIR FOR THE MUNICIPAL YEAR 2008/2009 | | |
| To receive nominations for election of Chair for the remainder of the Municipal Year 2008/2009. | | |
| 2. ELECTION OF VICE-CHAIR FOR THE MUNICIPAL YEAR 2008/2009 | | |
| To receive nominations for election of Vice-Chair for the remainder of the Municipal Year 2008/2009. | | |
| 3. APOLOGIES FOR ABSENCE | | |
| To receive any apologies for absence. | | |
| 4. DECLARATIONS OF INTEREST | 1 - 2 | |
| To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Chief Executive. | | |
| 5. UNRESTRICTED MINUTES | 3 - 6 | |
| To note the unrestricted minutes of the ordinary meeting of the Pensions and Accounts Committee held on 12 TH December 2007. | | |
| 6. DEPUTATIONS & PETITIONS | | |
| To receive any deputations or petitions | | |
| 7. UNRESTRICTED REPORTS FOR CONSIDERATION | | |
| 8 .1 PENSIONS COMMITTEE TERMS OF REFERENCE, MEMBERSHIP AND QUORUM (PC/001/089) | 7 - 10 | |
| 8 .2 Composition of the Pension Fund Investment Panel (PC/002/089) | 11 - 14 | |

**8 .3 Report of Investment Panel for Quarter Ending 31st
March 2008 (PC/003/089)**

15 - 22

**9. ANY OTHER UNRESTRICTED BUSINESS
CONSIDERED TO BE URGENT**

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Agenda Item 4

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

This note is guidance only. Members should consult the Council's Code of Conduct for further details. Note: Only Members can decide if they have an interest therefore they must make their own decision. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending at a meeting.

Declaration of interests for Members

Where Members have a personal interest in any business of the authority as described in paragraph 4 of the Council's Code of Conduct (contained in part 5 of the Council's Constitution) then s/he must disclose this personal interest as in accordance with paragraph 5 of the Code. Members must disclose the existence and nature of the interest at the start of the meeting and certainly no later than the commencement of the item or where the interest becomes apparent.

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- (a) An interest that you must **register**
- (b) An interest that is not on the register, but where the well-being or financial position of you, members of your family, or people with whom you have a close association, is likely to be affected by the business of your authority more than it would affect the majority of inhabitants of the ward affected by the decision.

Where a personal interest is declared a Member may stay and take part in the debate and decision on that item.

What constitutes a prejudicial interest? - Please refer to paragraph 6 of the adopted Code of Conduct.

Your personal interest will also be a prejudicial interest in a matter if (a), (b) and either (c) or (d) below apply:-

- (a) A member of the public, who knows the relevant facts, would reasonably think that your personal interests are so significant that it is likely to prejudice your judgment of the public interests; AND
- (b) The matter does not fall within one of the exempt categories of decision listed in paragraph 6.2 of the Code; AND EITHER
- (c) The matter affects your financial position or the financial interest of a body with which you are associated; or
- (d) The matter relates to the determination of a licensing or regulatory application

The key points to remember if you have a prejudicial interest in a matter being discussed at a meeting:-

- i. You must declare that you have a prejudicial interest, and the nature of that interest, as soon as that interest becomes apparent to you; and
- ii. You must leave the room for the duration of consideration and decision on the item and not seek to influence the debate or decision unless (iv) below applies; and

- iii. You must not seek to improperly influence a decision in which you have a prejudicial interest.
- iv. If Members of the public are allowed to speak or make representations at the meeting, give evidence or answer questions about the matter, by statutory right or otherwise (e.g. planning or licensing committees), you can declare your prejudicial interest but make representations. However, you must immediately leave the room once you have finished your representations and answered questions (if any). You cannot remain in the meeting or in the public gallery during the debate or decision on the matter.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS AND ACCOUNTS COMMITTEE

HELD AT 6.44 P.M. ON WEDNESDAY, 12 DECEMBER 2007

**COMMITTEE ROOM, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Bill Turner (Chair)

Councillor Fozol Miah

Other Councillors Present:

Officers Present:

| | |
|---------------|--|
| Anant Dodia | – (Pensions Manager) |
| Alan Finch | – (Chief Finance Officer, Resources) |
| John Gray | – (Staffside) |
| Kelly Rickard | – (Communications Officer) |
| Jim Ricketts | – (Capital and Investments Manager, Resources) |
| Angus Dixon | – (Democratic Services) |

1. APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of Councillors Waiseul Islam, Joshua Peck and Shafiqul Haque.

NOTED

2. DECLARATIONS OF INTEREST

Councillor Bill Turner declared a personal interest in relation to items 5.1, 5.2 and 5.3 as he is a member of another Local Authority Pension scheme.

NOTED

3. UNRESTRICTED MINUTES

RESOLVED

That subject to the following amendments, the Section 1 minutes of the meeting of the Pensions and Accounts Committee held on 28th June 2007 be confirmed as a correct record and the Chair be authorised to sign them accordingly:-

1. The correction at item 1 to the resolution to read 'That Councillor Bill Turner be elected Chair of the Pensions and Accounts Committee for the Municipal Year 2007/08'.
2. The correction at item 2 to the resolution to read 'That Councillor Joshua Peck be elected Vice-Chair of the Pensions and Accounts Committee for the Municipal Year 2007/08'.

4. DEPUTATIONS & PETITIONS

There were no deputations or petitions.

5. UNRESTRICTED REPORTS FOR CONSIDERATION

5.1 Statement of Accounts 2006/2007

Mr Alan Finch, Service Head Corporate Finance, introduced the report, which set out the Council's Statement of Accounts 2006-07. Having been approved by the Committee in June, the draft Accounts had now been externally audited, and two amendments had been made. The Accounts were closed within the timetable, and an unqualified opinion was given by the auditor.

The Chair questioned why there had been a need to make such a large adjustment to the valuation of fixed assets. Mr Finch reported that it had been investigated and that an action plan had been produced to prevent similar discrepancies in the future. The Chair requested that a copy of this action plan be distributed to the Committee.

RESOLVED

1. That the final Statement of Accounts for the financial year ending 31st March 2007, and the changes resulting from the audit, be noted.
2. To note that the Audit Commission has issued an unqualified opinion.
3. To note the matter arising from the audit will be adjusted in the accounts for 2007/08.

5.2 Premature Retirement 2006/2007 Outturn

Mr Ricketts, Capital and Investments Manager, introduced the Premature Retirement 2006-07 Outturn report, a report given annually to the Pensions and Accounts Committee. Mr Ricketts explained that the report informs Members of the number of premature retirements in 2006/07 authorised by Officers. Mr Ricketts asked Members to note that there were 29 premature retirements in 2006/07, up from 22 in 2005/06.

It was noted that the analysis of early retirements by ethnicity was under review.

The Chair questioned whether issues over ill health retirement were within the remit of the Committee. Mr Ricketts responded that ill health retirements were covered by legislation and the Council couldn't conduct any of its own procedures in this regard.

RESOLVED

That the report be noted.

5.3 Member Training on Pensions Issues

Mr Alan Finch, Service Head Corporate Finance, introduced the report which had been requested from Members at the Committee's last meeting. The report detailed the general areas of knowledge which Members (with responsibilities for pensions issues) needed to have to effectively discharge their duties. The report further set out potential arrangements for providing training for Members.

Mr Finch stated that the identified preferred method of delivering the training would be for short training sessions (half an hour) to be provided immediately before a Committee meeting. Mr Finch also stated that he was happy to take on board any suggestions for relevant training topics.

Mr John Gray, Staffside, stated that he believed training to be of critical importance and questioned whether it could be made compulsory for Members of the Committee. The Chair requested that John Williams, Service Head Democratic Services, be consulted as to the feasibility of making the training compulsory.

The Chair also encouraged Members to pursue any other relevant training opportunities that they identified.

RESOLVED

1. To consult with Members to identify areas in which Members feel they need further support.

2. To agree the initial training programme set out in section 4.2, subject to the results of consultation.
3. To agree the arrangements for future Pensions and Accounts meetings as set out in section 5.2.

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

There was no other business.

The meeting ended at 7.00 p.m.

Chair, Councillor Bill Turner
Pensions and Accounts Committee

Agenda Item 81

| Committee | Date | Classification | Report No. | Agenda Item No. |
|--|----------------------------|--|-------------------|------------------------|
| Pensions Committee | 26 th June 2008 | Unrestricted | PC/001 089 | |
| Report of: Service Head, Democratic Services Originating Officer(s) : John Williams | | Title : Pensions Committee Terms of Reference, Membership and Quorum Ward(s) affected: N/A | | |

1. Summary

- 1.1 This report sets out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2008/2009 for Members' information.

2. Recommendation

- 2.1 That the Pensions Committee note its Terms of Reference, Membership and Quorum as set out in Appendix A to this report.

3. Background

- 3.1 Council on 11th February 2008 agreed to establish an Audit Committee as a full Committee of the Council, and to amend the terms of reference of the former Pensions and Accounts Committee, which was also renamed the 'Pensions Committee'. Section 3.3 of the Council's Constitution (Responsibility for Functions – Council and Statutory Bodies) has been amended accordingly.
- 3.2 At the Annual Council Meeting on 21st May 2008, Members were appointed to the various Committees and Panels established for the new municipal year as set out in the Constitution. The terms of reference for the Pensions Committee together with the appointed Membership and Quorum thereof are set out in Appendix A.
- 3.3 The Council has agreed a programme of meetings for the municipal year. Further meetings of the Pensions Committee are scheduled as follows (start time 6.30 p.m.):
- 30th October 2008;
 - 22nd January 2009; and
 - 23rd April 2009

4. Comments of the Chief Financial Officer

There are no specific comments arising from the recommendations in the report.

5. Concurrent report of the Assistant Chief Executive (Legal)

5.1 The Committee is recommended to note the terms of reference for the current municipal year.

6. Equal Opportunities Implications

There are no specific equalities considerations arising from the recommendation in the report.

7. Anti Poverty Implications

There are no specific anti poverty implications arising from the recommendations in the report.

8. Risk Management Implications

There are no specific risk management implications arising from the recommendations in the report.

9 Sustainable Action for a Greener Environment

There are no specific risk management implications arising from the recommendations in the report.

LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED) LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background paper"

If not supplied
Name and telephone

Report to Council
Agenda Item 11

Zoe Folley
Committee Officer
020 7364 4877

"Appointment to Committees/Panels
of the Council"

Appendix A

PENSIONS COMMITTEE TERMS OF REFERENCE

Terms of Reference:

- To consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters.

Membership:

| Members | Substitutes |
|--------------------------|---|
| 7 Members of the Council | Up to three substitutes maybe appointed for each Member |

At the Annual General Meeting of the Council held on 21st May 2008 the following appointments were made to the Pensions Committee.

| Members | Substitutes |
|--|--|
| Councillor Helal Abbas |) |
| |) |
| Councillor Marc Francis |) |
| |) |
| Councillor Denise Jones |) no substitutes currently appointed |
| |) |
| Councillor Shiria Khatun |) |
| |) |
| Councillor Joshua Peck |) |
| |) |
| Councillor Fozol Miah | Councillor Shahed Ali, Councillor Harun Miah or Councillor Mamun Rashid) |
| (1 vacancy – position allocated to the Conservative Group) | |

The quorum of the Pensions Committee is three Members.

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Agenda Item 82

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|--|--|--|--------------------------------|-------------------|
| COMMITTEE: Pensions Committee | DATE: 26TH June 2008 | CLASSIFICATION: Unrestricted | REPORT NO PC/002/089 | AGENDA NO. |
| REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Investment Panel | | TITLE: Composition of the Pension Fund Investment Panel Ward(s) affected: <p style="text-align: center;">N/A</p> | | |

1. SUMMARY

- 1.1. This report informs Members of the current arrangements for the provision of Investment advice to this Committee and recommends that these arrangements continue.

2. RECOMMENDATIONS

- 2.1 Members are recommended to :
- 2.1.1 To establish an Investment Panel.
- 2.1.2 That membership of the Investment Panel comprise:-
- All Members of the Pensions Committee or their designated deputies.
 - A Investment Professional as Chair
 - An Independent Financial Advisor
 - The Corporate Director of Resources or nominee
- 2.1.3 Provide that up to two Trade Union representatives (or their designated deputies) as nominated by the Staffside Secretary attend the Investment Panel as observers.
- 2.1.4 To establish terms of reference for the Investment Panel as set out in Appendix 1.

**LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED)
LIST OF BACKGROUND PAPERS USED IN THE PREPARATION OF THIS
REPORT**

Brief description of "background papers"

xxxxxxxxxxxx

Brief description
"background papers"

Brief description of "background papers"

3. BACKGROUND

- 3.1 The Pension Fund Regulations require the Council to establish arrangements for monitoring the investment activities of the professional fund managers and ensuring that proper advice is available on investment issues.
- 3.2 This role is currently undertaken by the Investment Panel the composition and terms of reference of which were established by the Pensions and Accounts Committee on the 28th July 2004.
- 3.3 The terms of reference satisfy the Regulations, which require a formal statement of the responsibilities of the different parties involved in the investment process.

4. THE REGULATIONS

- 4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require Councils to invest pension fund cash, which is not immediately required to pay pensions.
- 4.2 The Regulations require that Councils when undertaking such investment take proper advice at reasonable intervals and consider the need for diversification of investments.
- 4.3 The Regulations enable Councils to appoint one or more investment managers but in these circumstances are required: -
 - To take proper advice
 - To consider at least every three months the investments undertaken by the manager.
 - To periodically review the managers appointment
- 4.4 To satisfy the requirement to obtain proper advice the Council has engaged an investment professional to act as chair of the investment panel and a firm of investment consultants to advise on the technical issues.
- 4.5 In addition the Council employs an independent performance measurement service to provide an analysis of individual manager's performance on a quarterly basis.
- 4.6 The Regulations have been supplemented by guidance on best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in response to the Myners report, an independent review of pension investment, which reported in 2001.
- 4.7 The CIPFA best practice guidance sets out the responsibilities of the different parties involved in the investment process and requires that a periodic review be made of these arrangements and of the performance of the individual parties.

5. CURRENT ARRANGEMENTS

- 5.1 Currently the Council is advised on investment issues by a Investment Panel which meets on a quarterly basis and comprises the following members :-

- An independent Chair (Raymond Haines)
 - All Members of the Pensions Committee or their designated deputies.
 - An independent advisor (Hymans Robertson & Co.)
 - The Corporate Director of Resources
 - Two observers from the Trade Unions.
- 5.2 The terms of reference of the Investment panel were established by the Pensions and Accounts Committee on the 28th July 2004 and satisfy the requirements of the Regulations.
- 5.3 It should be noted that the Investment Panel is purely advisory and has no executive powers. It advises this Committee on investment issues and this Committee decides on the basis of this advice what action is appropriate.
- 5.4 The terms of reference of the Investment Panel are as set out in Appendix 1.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1. The comments of the Corporate Director of Resources have been incorporated into the report.

7. RISK MANAGEMENT IMPLICATIONS

- 7.1 There is inevitably a relatively high degree of risk associated with investment in financial markets.
- 7.2 The Regulations attempt to mitigate this risk by ensuring that arrangements are in place to monitor the activities of investment managers and proper advice is taken.

8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 8.1 The legal considerations are set out in Sections 3 and 4 of the report.

9. ANTI-POVERTY IMPLICATIONS

- 9.1 There is no specific anti poverty implications.

10. EQUAL OPPORTUNITIES IMPLICATIONS

- 10.1 There are no equality implications.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 11.1 There are no Sustainable Action for A Greener Environment implications.

APPENDIX 1: INVESTMENT PANEL TERMS OF REFERENCE

The Investment Panel is responsible for monitoring all aspects relating to the investment of the assets of the Scheme. Its specific responsibilities are as follows: -

- The Investment Panel will formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee.
- The Investment Panel will consider and monitor the Quarterly Reports produced by their Investment Managers and independently produced performance measurement reports. The contents and formats of the reports will be specified by the Investment Panel.
- The Investment Panel will formally review annually each manager's mandate, and its adherence to its expected investment process and style. The Investment Panel will ensure that the explicit written mandate of each of the investment managers is consistent with the Scheme's overall objectives and is appropriately defined in terms of performance target, risk parameters and timescale.
- The Investment Panel will consider the need for any changes to the Scheme's investment manager arrangements (e.g. replacement, addition, termination) at least annually and make recommendations to the Pension Committee if necessary.
- In the event of a proposed change of managers, the Investment Panel will evaluate the credentials of potential managers and make recommendations to the Pensions Committee
- The Investment Panel will consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee.
- The Investment Panel will review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee.
- The Investment Panel will assess the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.
- The Investment Panel will consider and conclude the negotiation of formal agreements with managers, custodians and other investment service providers on behalf of the Pensions Committee.
- The Investment Panel is able to take such professional advice, as it considers necessary in order to fulfil its responsibilities.
- The Investment Panel will keep Minutes and other appropriate records of its proceedings, and circulate these minutes to the Pensions Committee.
- The Investment Panel may also carry out any additional tasks delegated to it by the Pensions Committee.

Agenda Item 83

| | | | | |
|--|---|--|---------------------------|------------|
| COMMITTEE: Pensions Committee | DATE: 26th June 2008 | CLASSIFICATION: Unrestricted | REPORT NO (PC/003/089) | AGENDA NO. |
| REPORT OF: Corporate Director of Resources | TITLE: Report of Investment Panel for Quarter Ending 31st March 2008. | | | |
| ORIGINATING OFFICER(S): Investment Panel | Ward(s) affected: N/A | | | |

1. SUMMARY

- 1.1 This report informs Members of the activities of the Investment Panel and investment performance of the Fund and the investment managers for the period ending 31 March 2008.
- 1.2 In the quarter the Fund achieved a return of -6.1% which was marginally behind the benchmark return of -5.9%. The returns for longer periods continue to lag the benchmark with the one year return of -3.9% being -1.3% below the benchmark return of -2.6%. However this long term underperformance must be considered in the context of the extensive restructuring of the fund undertaken in the year which would have an adverse impact on performance.
- 1.3 The performance of individual managers was variable. Three managers achieved returns above the benchmark whilst the remaining three were below. Martin Currie continued to under perform the benchmark and have a return since there appointment in 2006 of -1.7% which has underperformed the benchmark of +3.8% by 5.5%. Preliminary indications are that the performance of Martin Currie has improved in the current quarter and the position will be reviewed at the end of the current financial year.
- 1.4 The distribution of the fund amongst the different asset classes is broadly in line with the benchmark although there is increasing underweighting in equities attributable to the continuing declines in world financial markets as a result of the sub prime loan issues.
- 1.5 The appointment of two currency managers is currently being progressed.

2. RECOMMENDATIONS

- 2.1 Members are recommended to note the contents of this report.

**LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED)
LIST OF BACKGROUND PAPERS USED IN THE PREPARATION OF THIS
REPORT**

Brief description of "background papers"

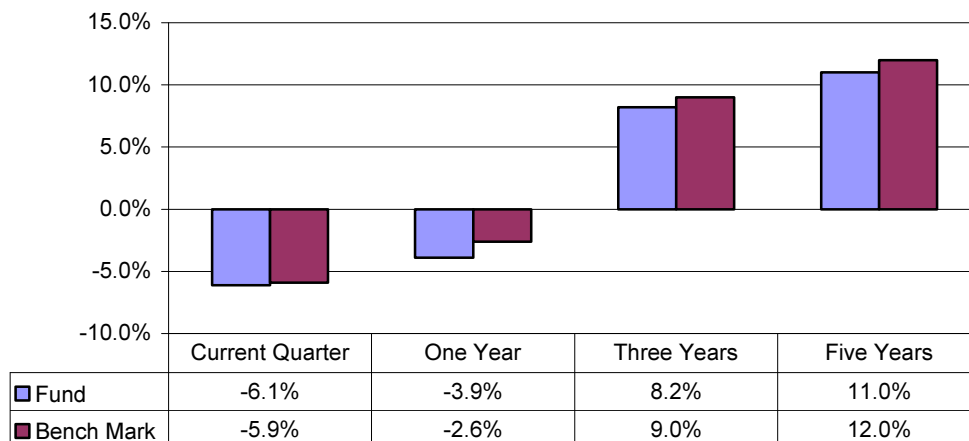
Name and telephone number of holder
And address where open to inspection

3. **BACKGROUND**

- 3.1 The Regulations require that the Council establish arrangements for monitoring the investments of the Fund and the activities of the investment managers and ensuring that proper advice is available on investment issues.
- 3.2 This Committee has established the Investment Panel, which meets quarterly for this purpose. The Panel's membership comprises all Members of the Pensions and Accounts Committee, an Investment Professional as Chair, an Independent Financial Adviser, and the Director of Resources. Trade Union representatives also attend as observers. The Investment Panel is an advisory body which makes recommendations to the Pensions and Accounts Committee which is the decision making body.
- 3.3 This report informs Members of the activities of the Investment Panel and performance of the Fund and investment managers for the period ending 31 March 2008.

4 **INVESTMENT PERFORMANCE**

- 4.1 The Fund achieved a return of -6.1% in the quarter which compared to a benchmark of -5.9%. This underperformance of 0.2% continues the long term underperformance of the fund.
- 4.2 The performance of the fund over the long term is as set out in table 1.



- 4.3 The performance of the fund should however be considered in the context of a major restructuring of the fund in the last two years which was undertaken to address the long term performance issues.
- 4.4 The restructuring has involved the appointment of five managers and a redistribution of the assets to increase the exposure to equities. Restructuring of this level will inevitably adversely impact on short term performance.
- 4.5 The long term impact of the restructuring has yet to be fully reflected in performance and it is considered that this can only be assessed when the revised structure has been fully operational for a minimum of two years, and realistically three years
- 4.6 The negative returns in the one year figures illustrates the volatility and cyclical nature of financial markets and are within the range of expectations used by the fund actuary in assessing the funding position. The Fund can take a long term perspective on investment issues principally because a

high proportion of its pensions liabilities are up to sixty years in the future. Consequently it can effectively ride out short term volatility in markets.

5. MANAGERS

- 5.1 The Fund currently employs six specialist managers with mandates corresponding to the principal asset classes. The managers are as set out below:

| Manager | Mandate | Value £M | Target % of Fund | Date Appointed |
|-----------------|---------------|---------------|------------------|----------------|
| GMO | Global Equity | 173.5 | 25% | 29 Apr 2005 |
| Baillie Gifford | Global Equity | 109.8 | 16% | 5 Jul 2007 |
| Martin Currie | UK Equity | 88.5 | 15% | 17 Jan 2006 |
| Aberdeen | UK Equity | 67.1 | 11% | 6 Jul 2007 |
| Aberdeen | Bonds | 163.2 | 21% | 28 Feb 2006 |
| Schroder | Property | 82.7 | 12% | 30 Sep 2004 |
| | | <u>£684.8</u> | <u>100%</u> | |

- 5.2 The performance of the individual managers is as set out in table 3.

| | Current Quarter | One Year | Three Years | Five Years |
|----------------------|-----------------|----------|-------------|------------|
| GMO | 1.3% | -0.4% | | |
| Baillie Gifford | 0.5% | 1.8% | | |
| Martin Currie | -0.7% | -6.7% | -5.2% | |
| Aberdeen UK Equities | -1.4% | -3.9% | | |
| Aberdeen Bonds | -0.3% | -0.4% | | |
| Schroder | 0.8% | 2.8% | 2.0% | |
| Total Fund | -0.2% | -1.4% | -0.8% | -0.9% |

- 5.3 **GMO** achieved a return of -7.6% in the quarter which outperformed the benchmark of -8.9% by 1.3%. The improvement in performance over the annual return was attributable to a change in investment strategy by GMO which increased the proportion of US quality stocks within the portfolio.
- 5.4 **Bailey Gifford** achieved a return of -8.3% in the quarter which outperformed the benchmark of -8.8% by 0.5%. The out performance since inception is attributable to an overweight position in the energy sector which has performed well.
- 5.5 **Martin Currie** has performed poorly since its appointment in 2006. It has underperformed the benchmark return of 3.8% by 5.5% since appointment. Martin Currie has a concentrated approach and high return target and this inevitably involves a degree of volatility. However the manager's overweight position in financials was adversely affected by the sub prime issue during the period. This position has now been cut and their overweight positions in mining and energy stocks will benefit future performance. There have however been changes in key personnel which concerned the Panel but it was considered appropriate to review the position at the end of the financial year.

- 5.6 **Aberdeen (UK Equities)** lagged the benchmark return by 1.4% in the quarter principally because of the underweight position in the energy and raw materials sectors.
- 5.7 **Aberdeen (Bonds)** performance was 0.3% behind the benchmark but performance since their appointment is marginally ahead of the benchmark.
- 5.8 **Schroders** have consistently outperformed the benchmark since their appointment. The diversification into continental Europe has offset the declines in the UK commercial property market.
- 5.9 The performance of individual managers should be considered in the context of the structure of the overall fund which has been constructed on the basis of complimentary management styles. Whilst individual managers may under perform the relevant benchmark this may be appropriate because their position will contribute to the overall stability of the fund.

6 ASSET ALLOCATION

- 6.1 The allocation of investments between the different asset classes was determined in conjunction with the Council's professional advisors in 2004. The asset allocation is determined by a number of factors including:-
 - 6.1.1 The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the fund remains open to new members and able to tolerate this long term benefits of the increased returns.
 - 6.1.2 The age profile of the Fund. The younger the members of the fund are the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.
 - 6.1.3 The deficit recovery term. All Council funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise employer's contribution rates. The actuary has set a twenty year deficit recovery term for this Council which enables a longer term investment perspective to be taken.
- 6.2 The benchmark asset distribution and the position at the 31st March 2008 is as set out below:

6.3 Individual managers have discretion within defined limits to vary the asset distribution.

6.4 In addition the distribution will vary according to the relative returns of the different asset classes. Global equity markets have seen heavy declines as a result of sub prime loan issues. This has distorted the distribution in the short term. It is considered

| | Benchmark | Quarter | Variance |
|-------------------|-----------|---------|----------|
| | % | % | % |
| UK Equities | 30.0% | 28.3% | -1.7% |
| Overseas Equities | 37.0% | 36.8% | -0.2% |
| Total Equities | 67.0% | 65.1% | -1.9% |
| Property | 12.0% | 11.4% | -0.6% |
| UK Bonds | 12.5% | 12.5% | 0.0% |
| Overseas Bonds | | 1.8% | 1.8% |
| Index Linked | 8.5% | 7.9% | -0.6% |
| Cash | | 1.3% | 1.3% |
| | 100.0% | 100.0% | 0.0% |

that the position will correct in the long term and consequently no rebalancing is required at the current time.

7 CURRENCY MANAGERS

- 7.1 The Investment Panel considered submissions by 23 companies for the currency mandate in an exercise administered by the Council's investment advisor Hymans Robertson.
- 7.2 The Panel interviewed a short list of five managers and recommended that Auriel and Record be appointed for the mandates.
- 7.3 The Panel's recommendation was endorsed by the Director of Finance in accordance with the delegated authority granted by this Committee on the 16th March 2006.
- 7.4 The appointment is currently being progressed by Corporate Finance in conjunction with Hymans Robertson.

8. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 8.1. The comments of the Director of Resources have been incorporated into the report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Any form of investment inevitably involves a degree of risk.
- 9.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. This diversification relates to both asset classes and management styles.
- 9.3 The current management changes attempt to blend complementary investment styles to minimise risk.

10. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 10.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require Councils, which administer Pension Funds to invest contributions until such time as they are required to pay pensions.
- 10.2 The Regulations require that when undertaking such investment Councils are required to ensure that such investments are diversified to minimise risk and to obtain and consider proper advice.
- 10.3 The report details how the Council fulfils its obligations in this regard.

11. ANTI-POVERTY IMPLICATIONS

- 11.1 There are no specific anti poverty implications.

12. EQUAL OPPORTUNITIES IMPLICATIONS

- 12.1 There are no equality implications.

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

13.1 There are no Sustainable Action for A Greener Environment implications.

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