
Pensions Panel

THURSDAY, 15TH JUNE, 2006 at 19:00 HRS - .

MEMBERS: Councillors Rahman Khan (Chair), Beacham, Patel, Bevan (Vice-Chair), Basu, Butcher, Davies, Mallett and Wilson

IN ATTENDANCE: Howard Jones and Roger Melling

AGENDA

- 1. APOLOGIES FOR ABSENCE**
- 2. URGENT BUSINESS**
- 3. DECLARATIONS OF INTEREST**
- 4. MINUTES - TO CONFIRM AND SIGN THE MINUTES OF THE PENSIONS PANEL HELD ON 23 MAR 2006 (PAGES 1 - 8)**
- 5. ATTENDENCE BY 4 FUND MANAGERS**
 - 7:00pm – Fidelity
 - 7:30pm – Capital
 - 8:00pm – Bernstein
 - 8:30pm - Wellington
- 6. FUND PERFORMANCE AND ADMINISTRATION UPDATE (PAGES 9 - 34)**
- 7. NEW ITEMS OF URGENT BUSINESS**

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**MINUTES OF A MEETING OF THE PENSIONS PANEL:
23 MARCH 2006**

Councillors *Gmmh Rahman Khan (Chair), E. Prescott (Deputy Chair), Beacham, *Floyd, Milner, Patel and Reynolds.
[* Members present]

In attendance: Howard Jones* (Advisor to Trustees), Roger Melling* (Designated Union Representative) and Max Wood* (MD of Haringey Accord).

1. APOLOGIES FOR ABSENCE AND INTRODUCTION:

Apologies for absence were received from Councillors Milner and Patel.

The Chair expressed his concern with regard to the low attendance of Members at the Panel meetings and felt that, when appointed by Full Council to this Panel, members should discharge their duties and attend meetings.

The Chair welcomed the attendance of a representative from an admitted body to the Fund meeting – Max Wood, the Managing Director of Haringey Accord.

2. URGENT BUSINESS:

There were no items of urgent business. There was one item of late business – Item 7 (Fund Performance and Administration Update). The reason given to Members for the lateness of the report was that the report authors were awaiting further information from fund managers in order to produce a comprehensive report.

3. DECLARATIONS OF INTEREST:

No declarations of interest were received.

4. MINUTES:

RESOLVED:

That the Minutes of the meeting held on 2 February 2006 be confirmed and signed as an accurate record.

5. DEPUTATIONS/PETITIONS:

No deputations or petitions were received.

6. ATTENDANCE BY FIVE FUND MANAGERS:

Each Fund Manager gave a presentation of approximately 10 minutes followed by questions from Members and the Advisor to Trustees.

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- i. Bernstein
- ii. Wellington
- iii. ING
- iv. Capital
- v. Fidelity

i. Bernstein

Patrick Rudden and George Blunden entered the proceedings and addressed the Panel on behalf of Bernstein.

They informed members that, over the 4th quarter of 2005, fund performance had been 0.43% above benchmark and 0.07% below target.

Mr. Rudden advised the Panel that the best returns in Q4 had been in the consumer staples, consumer cyclicals and construction sectors. The FTSE as a whole had increased by 22%.

The Panel were further informed that more than two-thirds of the sales of large UK companies were made overseas. The UK market was thus reflecting strong sales elsewhere as well as strong sales in the UK.

Members were informed by Mr. Rudden that the fund had made a significant investment in Vodafone. Bernstein was of the opinion that Vodafone had good earnings potential as it was the largest or second-largest player in most mobile phone markets with the exception of Japan. Vodafone had sold off its Japanese operations, which had been welcomed by most industry analysts. This would mean that Vodafone had potential for major share price growth in the near future.

The Advisor to the Trustees, Howard Jones, enquired about the split between execution and research costs in the fees Bernstein paid brokers.

Mr. Rudden responded that total commission was 15 basis points (0.15%). Of this, it was estimated 5 to 7 basis points were research costs and 8 to 10 basis points execution costs.

The Chair enquired as to whether the fund had cast any proxy votes on controversial issues in the 4th quarter. Mr. Rudden responded that most controversial issues come up for consideration at AGMs around April. As such, the fund had not cast any proxy votes on major issues in the quarter under consideration.

Mr. Rudden and Mr. Blunden then withdrew from the proceedings.

ii. Wellington

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Mike Elwood and Cassie Martin entered the proceedings and addressed the Panel on behalf of Wellington.

Mr Elwood and Ms Martin reported that fund performance was 0.24% below benchmark and 0.74% below target in the quarter to December 2005. Annualised performance since inception was 1.59% below benchmark and 3.59% below target.

Mr. Elwood informed the Panel that the fund was heavy in oil stocks. The recent fall in oil prices had affected the value of oil company shares significantly. This was one of the principal reasons given for underperformance. The fund was overweight large cap companies whilst the largest growth had occurred amongst small cap companies, this had hurt Fund performance.

Mr. Jones asked if the fund managers were able to disaggregate commissions paid to brokers. Mr. Elwood replied that Wellington was unable to do so at this time.

In order to improve performance, Mr. Elwood informed the Panel that staff would be added to the sections within Wellington that researched companies operating in the financial and consumer discretionary sectors.

Mr Elwood and Ms Martin then withdrew from the proceedings.

iii. ING

Mark Bunney and Alistair Dryer from ING entered the proceedings and addressed the Panel concerning the property investments the firm was undertaking on behalf of Haringey LGPS.

Mr. Bunney and Mr. Dryer informed the Panel that fund performance was 0.25% below benchmark and 0.43% below target in the quarter to December 2005. Annualised performance since inception was 0.34% above benchmark and 0.36% below target.

Mr. Dryer informed members that ING was not in agreement with some commentators who had said the property market was overvalued. He stated he still felt it had room for growth.

Mr. Bunney advised the Panel a large proportion of the investments were in City office space. Members were informed that rent for office space in the City was running at about £50 per square foot. This was still less than the all-time high of £70 reached at the end of the 1980s boom. The vacancy rate for office space was less than 10% and was still falling, suggesting that rent rises would continue.

Mr. Bunney and Mr. Dryer shared a copy of the newly agreed FRAG-21 certificate for ING as required.

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Mr. Bunney and Mr. Dryer expressed concern about the benchmark used to evaluate performance. They suggested that the benchmark be moved from the HSBC /AREF pooled property index to the HSBC/AREF balanced funds index. The number of specialist funds in the pooled property benchmark has increased substantially since the funds inception, increasing its risk profile. The balanced fund benchmark has a lower risk profile which more closely resembles that which the council committed to at the inception of the mandate.

Mr. Bunney and Mr. Dryer then withdrew from the proceedings.

iv. Alliance Capital

Anthony Burgess entered the proceedings and addressed the Panel on behalf of Alliance Capital.

Mr. Burgess reported to members that fund performance was 1.09% above benchmark and 0.72% above target in the quarter to December 2005. Annualised performance since inception was 0.19% below benchmark and 1.69% below target.

The Panel was further informed by Mr. Burgess that the bond market was in a very unusual state at the moment. The shortage of long-term gilts that meant that the rate of return on 50-year gilts had fallen to just 0.75%. Although the LGPS' desire for fixed and secure assets for part of its portfolio and government regulations necessitated the holding of gilts, the performance of these was currently poor.

Mr. Burgess advised the Panel that companies that Capital had invested significantly in included HBOS (Halifax Bank of Scotland Group) and AstraZeneca. Mr. Burgess further advised the panel that HBOS had simplified its product range for mortgages and so was better able to sell these to customers who were baffled by the range of mortgages on offer. Mr. Burgess commented that AstraZeneca had developed a new anti-cholesterol drug. He suggested this had the potential to make large profits for the firm.

Mr. Jones sought clarification on the disaggregation of commission. Mr. Burgess responded that commission amounted to approximately 10 basis points (0.1%). He commented that the vast majority of commission, around 95%, was paid for execution rather than research.

Mr. Burgess further advised that the fund was overweight in technology stocks. They were currently not performing well, especially Microsoft, as Microsoft had delayed the launch of its Vista operating system.

Members sought clarification on the approach Capital was taking to corporate social responsibility. Mr. Burgess responded that there was no explicit provision to select or not to select stocks on ethical grounds. However, Capital were focussing on climate

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change and working with companies to promote energy efficiency.

Mr. Burgess then withdrew from the proceedings.

v. Fidelity

Peter Yarrow and Simon Kyte entered the proceedings and attended the meeting on behalf of Fidelity and addressed the Panel.

The Panel was informed by Mr. Yarrow and Mr. Kyte that the fund had achieved a 5% return, 0.5% above the benchmark.

Mr. Yarrow informed the Panel that there had been strong growth in corporate profitability worldwide and that a large amount of mergers and acquisitions activity was taking place.

Mr Yarrow brought to the Panel's attention that low bond yields were a problem facing the industry. He informed the Panel that they had fallen to an all-time low but, in his opinion, they were unlikely to fall further.

Mr. Jones sought clarification from Mr. Yarrow and Mr. Kyte about the breakdown in commission between execution and research costs. Mr. Yarrow estimated that around 70% of commission costs were execution ones.

A company restructure within Fidelity was mentioned in the report of the fund managers. Mr. Yarrow informed the Panel that changes in the way teams were structured would enable better communication between staff and hence a pooling of knowledge.

Mr. Yarrow further advised that a scheme had been established which allowed Pension Funds to benefit from the double-taxation treaty between Britain and the US. Members were advised that this was good news for the LGPS as it would improve the net returns from US investments.

Mr. Yarrow and Mr. Kyte commented to the Panel that good results had been obtained in Japan. The largest Japanese telephone company, NTT, had suffered a bad performance on the Japanese stock market. Fortunately, Fidelity had been underweight in NTT and so was not affected by its fall. The fund benefited from the rise in value amongst other big players in the Tokyo stock exchange.

Mr. Yarrow and Mr. Kyte then withdrew from the proceedings.

RESOLVED:

That the details of each of the presentations be noted.

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7. FUND PERFORMANCE AND ADMINISTRATION UPDATES:

The report of the Director of Finance on Fund Performance and Administration was outlined to the Panel to the Panel by the Pensions Manager, Chief Accountant and the Head of Personnel.

Officers reported that the overall performance of the fund had been 0.45% above benchmark.

The Panel were informed by the report of the Director of Finance that training was available from the custodian Northern Trust. Members had indicated at previous meetings that they would appreciate training from this provider. The Panel was advised that the event would be being held on 21 June. This would be an event which would include representatives from other local authorities and would, therefore, provide an opportunity to meet trustees of other local authority pension funds and share views, knowledge and experience.

The Chair sought the advice of officers regarding the suggestion from ING that the benchmark used for their property fund be altered. Mr. Jones advised that any decision on changing the benchmark should be deferred until the investment strategy review was completed.

The Panel stated that they had no appetite for more risk and would seek the advice of the Director of Finance as regards the change of benchmark as suggested by ING

The Chair asked for further details under "Pensions Administration" regarding compliance with the Data Protection Act", disclosure of information under various rules etc. He suggested that a certificate of existence for pensioners above a certain age should be required. .

The Pensions Manager informed the Panel that the Council participated in the Audit Commission's National Fraud Initiative. This involved data-sharing between the DWP and local authority pension funds. The aim of this would be to prevent situations where, for example, someone was collecting the pension of a dead pensioner fraudulently.

It was agreed that a paragraph regarding the position on the above subjects was to be included in future reports.

As regards the CIPFA Guidance Notes, circulated earlier, as per the decision of the Pensions Panel, the Chair indicated that there were three fundamental issues:-

- 1) Delegation of the power, in relation to maintaining a Pension Fund- either to a Committee, Sub-committee or Officer of the authority;
- 2) Reporting to Council, either through a Pensions Committee or through a non-Executive Committee;

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- 3) Representation of other employers as admitted bodies and other representatives.

The Chair expressed his opinion that Haringey Council could adopt any of the models, as mentioned in points 1 & 2 or as per the 2nd of March draft report of the Monitoring Officer on the subject but the most important point was that the structure for maintaining the Pensions Fund must be effective and compliant with the Myners Principles.

In addition, he expressed the view that there must be representation of all stakeholders, either with or without voting powers.

However, in order to make the "Pensions Panel" compliant with the 10 points in the Myners principles, as the initial step to be reviewed within a short period the Chair proposed that 4(a)(i) of the proposed Governance Policy Statement be amended to state that General Purposes Committee receives the minutes of Pensions Panel. It was proposed that the phrase "has concurrent powers" be removed from the sentence and be replaced by the phrase "General Purposes Committee shall receive minutes from Pensions Panel", subject to the advice of the Monitoring Officer.

RESOLVED:

1. That the Fund Performance position as at the end of January 2006 be noted.
2. Change of benchmark for ING to be determined by the Director of Finance.
3. That the budget monitoring position as at the end of January 2006 be noted.
4. That the Governance Policy Statement be amended as outlined above, subject to the advice of the Monitoring Officer, as an initial step.
5. That future reports include information on compliance with requirements for the disclosure of information and the Data Protection Act under the 'Pensions Administration' heading.

8. NEW ITEMS OF URGENT BUSINESS:

There were no items of new urgent business

9. ANY OTHER BUSINESS:

As Cllr Floyd would be retiring from the Council, this was his last Pensions Panel meeting. The Chair conveyed his thanks to him for his attendance and contribution to the body. As this was the last meeting of this Municipal year, the Chair thanked officers and members for their kind co-operation in managing the affairs of this panel in a non-partisan way

The Chair mentioned that local authority pension funds had discretionary powers to

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grant admitted bodies seats on their Pensions panels granting them voting powers at meetings. This was a matter which he believed should be considered by the new Council when it reviewed the constitution and terms of reference of bodies, along with the effective structure for maintaining the Pension Fund of the Council, in the light of the CIPFA Guidance.

The Union Representative, Roger Melling, suggested that, when a new Pensions Panel is appointed after the local elections, an informal introductory meeting should be held to enable officers and the Advisor to Trustees to explain terminology used in the Panel to new members. He also expressed a wish that Fund Managers present their reports in plain English as there was a tendency among them to drift into jargon.

The meeting ended at 9:30pm

Signed.....

Date.....

COUNCILLOR GMMH RAHMAN KHAN
CHAIR.

APPENDIX 2

FUND PERFORMANCE TO 31 MARCH 2006

GROSS OF FEES

	Market valuations 31.03.03	Market valuations 31.03.05	Market valuations 31.03.06	Weighted % Fund change 1 January to 31 March	% benchmark change 1 January to 31 March	% target 1 January to 31 March	Under (-)/over (+) performance versus target 1 January to 31 March	Annualised weighted % Fund change 1 April 2003 to 31 March 2006	Annualised % benchmark change 1 April 2003 to 31 March 2006	Annualised % target 1 April 2003 to 31 March 2006	Annualised under (-)/over (+) performance versus target 1 April 2003 to 31 March 2006
	£'000	£'000	£'000	%	%	%	%	%	%	%	%
Bernstein	57,182	93,217	118,475	7.70	8.09	8.59	(0.89)	24.93	24.67	26.67	(1.74)
Capital	92,282	127,900	158,230	4.42	4.63	5.00	(0.58)	17.54	17.80	19.30	(1.76)
Fidelity	93,294	119,536	147,104	3.36	3.30	3.65	(0.29)	15.65	15.18	16.58	(0.93)
ING	5,432	26,534	34,234	6.53	5.11	5.29	1.25	19.20	19.24	19.94	(0.74)
Wellington	61,019	85,777	113,023	5.22	7.34	7.84	(2.62)	22.81	25.10	27.10	(4.29)
Not allocated	15,455	1,338	110								
Totals	324,664	454,302	571,176	5.10	5.41	5.82	(0.72)	19.41	19.76	21.41	(2.00)

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PENSIONS FUND

BUDGET MONITORING - PERIOD 1 (END OF APRIL) 2006/07

	2006/07 Budget £'000	Plan to period 1 £'000	Actual to period 1 £'000	Over/under (-) £'000	Explanations of variations
Income					
Contributions and benefits:					
Employee Contributions	(8,000)	(667)	(585)	82	
Employer Contributions	(26,600)	(2,217)	(2,041)	176	
Transfer Values Received	(5,000)	(417)	(600)	(183)	Volume and timing varies
Capital costs	(900)	(75)		75	
Total income	(40,500)	(3,300)	(3,226)	74	
Expenditure:					
Pensions and other benefits	21,400	1,783	1,715	(68)	
Lump sums	2,200	183	62	(121)	Difficult to estimate
Transfer values paid	5,000	417	296	(121)	Volume and timing varies
Refunds on contributions	100	8	36	28	
Administrative expenses	700	58	49	(9)	
Total expenditure	29,400	2,450	2,158	(292)	
Net addition from dealings with members	(11,100)	(850)	(1,068)	(218)	
Returns on Investment:					
Investment income	(15,000)	(1,250)	(1,139)	111	Difficult to estimate
Investment management expenses	1,600	133	-	(133)	Timing of receipt of Fund Managers invoices
Investment administration expenses	600	50	-	(50)	Timing of receipt of Fund Managers invoices
Net return on investments	(12,800)	(1,067)	(1,139)	(72)	

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APPENDIX 1

TOP TEN SHARES HELD

Shares	As at 31 March 2006			As at 31 March 2005		
	Rank	Percentage of Fund	Market Value	Rank	Percentage of Fund	Market Value
		%	£'000		%	£'000
1. Vodafone	1	3.5	14,777	1	4.4	14,381
2. Shell	2	3.3	13,853	6	2.1	6,833
3. Royal Bank of Scotland	3	2.8	11,749	2	3.2	10,294
4. Astrazeneca	4	2.8	11,720	5	2.2	7,029
5. BP	5	2.5	10,250	4	2.4	7,934
6. HBOS	6	2.3	9,704	3	2.7	8,884
7. Barclays	7	1.6	6,601	8	1.6	5,184
8. HSBC	8	1.3	5,576	7	1.6	5,307
9. British American Tobacco	9	1.2	5,386			
10. BAE Systems	10	1.1	4,890			
Lloyds TSB				9	1.4	4,524
Glaxosmithkline				10	1.1	3,680

FUND HOLDINGS

Fund Holdings	As at 31 March 2006		As at 31 March 2005	
	Percentage of Fund	Market Value	Percentage of Fund	Market Value
	%	£'000	%	£'000
UK equities	35.8	204,508	36.0	163,057
Overseas equities	22.8	130,198	21.5	97,634
Pooled investment vehicles	24.7	140,986	24.7	111,870
Index-linked securities	3.9	22,096	4.5	20,403
Fixed interest securities	10.8	61,870	11.4	51,528
Cash	1.5	8,397	1.3	6,020
Other investments	0.5	3,123	0.59	2,678
Totals	100.0	571,178	100.0	453,190

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Training for Elected Members

Introduction

Hymans Robertson would be delighted to organise training for elected members of the London Borough of Haringey as an administering authority of a local government pension fund. We outline within this paper a suggested training plan but would be happy to adapt to suit your needs. This training plan has been produced with the objectives of the elected members “acquiring a level of understanding of:

- their responsibilities as an administering authority of a local government pension fund;
- the fundamental requirements relating to pension fund investments;
- the operation and administration of the pension fund;
- controlling and monitoring the funding level;
- and taking effective decisions on the management of the Council’s Pension Fund”.

Our Credentials

Hymans Robertson is well placed to advise the Council on these matters:-

- Our investment and actuarial practices have grown steadily over recent years. We now employ more than 70 people to work with our local authority clients.
- We are the largest Firm of advisers to Local Government Pension Schemes – we advise over 50 funds on actuarial and investment issues.
- Our public sector experience is second to none – as well as actuaries and consultants with many years experience of working with our public sector clients, we employ ex-local authority staff to provide us with that an extra dimension of knowledge and understanding.
- We pride ourselves on our continuity. A number of our Partners and Senior Consultants have been advising Local Authority Funds for more than 10 years.

Meeting Your Requirements

The following sessions cover what we believe to be a broad range of the topics that an elected member would need to understand as part of role as “trustee” to your Council’s Pension Fund. We believe these sessions could be delivered over two working days. Alternatively, they could be delivered over a longer period of time (for example, with one or two sessions being delivered at each of your Pension Panel meetings). If the remit of your required training was narrower (for example, just in relation to investment responsibilities or just in relation to funding/administration responsibilities) we could provide just the sessions relevant to that topic.

Session 1 *This session provides a brief background to the LGPS and examines the structure of the LGPS within the UK and the various types of participating employees and employers.*

45 minutes History, structure and participation in the LGPS

- history of the LGPS;
- administering authorities;
- employing authorities including admission bodies;
- scheme members.

Session 2 *This session outlines income and expenditure of the pension fund as well the benefit structure of the LGPS.*

45 minutes Income, expenditure and benefits

- income and expenditure;
- scheme benefits;
- discretionary provisions.

Session 3 *This session looks at the actuarial valuation process and assumptions as well as the options available when deciding on the ongoing employers' contribution rates.*

60 minutes The triennial actuarial valuation

- the process;
- the funding strategy statement;
- assumptions and demographics;
- the actuaries' toolkit;
- the rates and adjustment certificate.

Session 4 *This session looks at other circumstances where you would want to liaise with your actuary to safeguard the interests of the pension fund.*

60 minutes Ongoing risk control

- inter-valuation monitoring;
- payment and monitoring of early retirements;

- new employers;
- cessation of employers/employers with no active members;
- FRS17.

Session 5 *This session looks at the various stages involved with transferring or outsourcing groups of staff.*

45 minutes Outsourcing and bulk transfers of staff

- overriding guidance and legislation;
- broadly comparable pension arrangements;
- bulk transfer values;
- subsequent stages of staff transfers.

Session 6 *This section considers non-investment related governance and in particular good practice in relation to communication, representation and decision making.*

45 minutes Governance

- representation and consultation;
- communication;
- decision making.

Session 7 *This session looks at the different legislation governing the investment related operations of the Pension Scheme and sets out the framework within which Officers and Elected Members must operate (as “quasi-Trustees”).*

45 minutes Legislation underpinning operation of Scheme

- LGPS Regulations;
- Myners Principles;
- CIPFA Guidelines;
- “Trustee” responsibilities;
- The Pensions Regulator guidance on Trustee Knowledge, Understanding and Conversance (as far as it relates to the LGPS).

Sessions 8 *This session addresses the key characteristics of each asset class – what is the investor entitled to? On what is the return dependent? What is good/bad for each asset class?*

45 minutes Characteristics of different asset classes

- quoted equities (UK and rest of world);
- bonds (Gilts, corporates, conventionals, Index-Linked);
- property;
- private equity;
- hedge funds.

Session 9 *Having considered the investment characteristics of the asset classes, we now consider the likely returns in terms of the likely return and associated risk (both in an absolute sense and relative to the liabilities).*

45 minutes Asset classes and their suitability for pension funds

- “matching” characteristics;
- risk/reward characteristics;
- separately and in combination.

Session 10 *This session looks at Strategy Setting for LGPS schemes. It looks at the concept of risk relative to the Fund’s liabilities, how risk is measured, what role Asset Liability studies can play in helping Trustees determine their investment strategy.*

45 minutes Developing Strategy

- liability matching;
- asset/liability studies;
- concept of risk.

Session 11 *This Session considers how these different assets might best be combined together to form an appropriate long term strategy for the fund. There are similarities in approach with the actuarial valuation, but the objectives can be quite different.*

45 minutes Setting benchmarks

- why the peer group is no longer appropriate;
- relationship with the actuarial valuation process;
- comparing the benchmark with the actuarial valuation – what are they each seeking to achieve?

Session 12 *This Session considers how funds might go about achieving their desired investment strategy, what arrangements need to be in place to support implementation and what else can be done to get more out of the fund's assets*

45 minutes Implementing Strategy

- active and passive management;
- multi asset and specialist management;
- manager structures;
- target setting;
- custody and associated services.

Session 13 *What the fund needs to do to monitor the progress of its investment managers, what is important and what is less so. Services that can be provided to assist in monitoring*

45 minutes Officer/member monitoring

- performance measurement;
- review frequency;
- reporting styles;
- help with monitoring.

Session 14 *Other Issues. The session examines the use of other tools and techniques for enhancing the performance of the fund.*

45 minutes Other issues, for example,

- monitoring the custodian;
- stock lending;
- cash management;
- commission recapture;
- transaction monitoring;
- currency management.

Who would lead the sessions?

We believe it is important that our presenters have wide experience of other Local Government funds as well as the London Borough of Haringey Pension Fund. We would envisage a team of presentators to ensure the highest level of expertise in relation to each of the topics.

- Bryan Chalmers would lead the actuarial sessions relating to issues such as the actuarial valuation and inter-valuation monitoring. Bryan is the fund actuary for the London Borough of Haringey as well as a number of other local authorities.
- The sessions relating to the technicalities of the administration of the scheme as well as governance would be presented by Karen McWilliam, Peter Feerick or Pete Riedel. All three are former Pension Managers and are, therefore, be in an excellent position to explore these topics with your elected members.
- Vince McEntegart would lead the investment sessions. Vince is the investment consultant for the London Borough of Haringey. Vince would be assisted by Rona Train, another of our consultants who focuses on Local Authority investment clients.

What would we charge?

We are very keen to continue our work with the London Borough of Haringey. We have reflected that enthusiasm in what is, in our view, a very keen fee proposal:-

Based on the provision of two days training, we would propose a fee of £8,000 including the preparation of all course material irrespective of the number of attendees. This would involve attendance on one day by Bryan and Karen, Peter or Pete and attendance on a second day by Geoff and Alistair.

We would be happy to provide you with further quotations based on an alternative delivery method of some or all of these sessions, for example, only half the sessions over two half days.

Venue?



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London Borough of Haringey Pension Fund

We would be happy to carry out this training at your own offices. However, if the elected members thought that it might be better to have this training delivered out of the office environment we would be happy to host the training day at our London offices at Bunhill Row.

Prepared by:-

Karen McWilliam
14 November 2005
For and on behalf of Hymans Robertson LLP

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Pensions Panel
On 15 June 2006
Report title: FUND PERFORMANCE AND ADMINISTRATION UPDATES
Report of: ACTING DIRECTOR OF FINANCE AND CHIEF EXECUTIVE
Ward(s) affected: All
Report for: Information
1. Purpose

- 1.1 To consider the latest investment performance data for the Pension Fund and for each of the Fund's investment managers.
- 1.2 To consider regulatory changes affecting the administration of the Local Government Pension Scheme together with relevant issues covered in circulars issued by the Local Government Pensions Committee (LGPC).
- 1.3 To report 2006/07 budget monitoring to the end of April 2006.
- 1.4 To consider training needs of Trustees.

2. Recommendations

- 2.1 That the Fund performance position as at the end of March 2006 be noted.
- 2.2 That the administration update be noted.
- 2.3 That the budget monitoring position to end of April 2006 (period 1) be noted.
- 2.4 That Trustee training be agreed.

Report authorised by: Gerald Almeroth – Acting Director of Finance
Contact officers: : Ian Benson, Pensions Manager (tel no: 020 8489 3824)

John Hardy, Head of Finance-Budgeting, Projects & Treasury (tel no: 020 8489 3726)

3. Executive Summary

This report sets out the fund performance to end of March 2006, budget monitoring to end of April 2006 (period 1), considers Trustee training needs and the latest administration update.

4. Reasons for any change in policy or for new policy development (if applicable)

No changes are proposed.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

Northern Trust performance monitoring reports

Fund performance update report to Pensions Panel on 23 March 2006

Regulatory changes and circulars received regarding the LGPS

6. Background

6.1 The investment performance of the Pension fund was last reported to the Panel in March 2006. That report covered the period up to 31 December 2005, at which time the following points were noted:

- The combined Haringey fund has increased in absolute terms since inception by 19.18% and under performed against the gross benchmark by 0.25% and gross target by 1.90% in annualised terms.
- Bernstein, Fidelity and ING have met their agreed benchmarks to date. The annualised performance of capital is 0.19% below benchmark to date.
- The performance of Wellington is still a concern as annualised under-performance compared to benchmark and target since inception are 1.59% and 3.59% respectively. Performance in the quarter to December 2005 was 0.74 % below target so the under performance has increased since that reported to the last meeting. We will continue to monitor carefully as agreed as part of the healthcheck.

- ING's performance was below benchmark in the quarter and this has resulted in ING now being below target since inception. ING'S benchmark has started to become more volatile as the constituent holdings have grown significantly. As part of the review of investment strategy we will consider whether to change this benchmark, as this would involve taking more risk in order to outperform.

6.2 The investment performance of the fund is critical as it impacts directly on the level of employers contributions that the Council is required to pay.

6.3 This report updates the investment performance information by including data for the three month period up to March 2006. Our current Investment Management structure was implemented in mid March 2003 following a transition of investments from the old structure. This included measuring performance against a new benchmark. We are in the midst of our current review of investment strategy with the next report due to be reported to the Panel meeting on 29 June 2006.

7. Combined Fund Performance

7.1 Performance of the overall fund compared to target is shown below. The target is shown gross of Fund Managers fees and assumes that returns above benchmark are achieved evenly throughout the year.

	3 months to end of March 2006	3 years to end of March 2006 (annualised performance)
	%	%
Overall fund performance	+5.10	+19.41
Benchmark	+5.41	+19.76
Performance versus benchmark	-0.31	-0.35
Overall fund performance	+5.10	+19.41
Target	+5.82	+21.41
Performance versus target	-0.72	-2.00

7.2 This shows that in the period to March 2006:

The annualised performance of the combined Haringey fund has increased in absolute terms by 19.41% but under-performed against the benchmark by 0.35% and target by 2%.

7.3 Appendix 1 shows the following for the combined fund as at end of March 2006 and 2005 for comparison purposes:(1) top ten shares held, (2) fund holdings.

8. Fund Manager Performance

- 8.1 Appendix 2 shows for each Fund Manager investment performance to 31 March 2006 compared to agreed benchmarks and targets as supplied by our performance manager, Northern Trust.
- 8.2 Gross performance targets for each Fund Manager are shown below. They denote the percentage annual return above benchmark over a rolling 3 year period.

Bernstein	2.0%
Capital	1.5%
Fidelity	1.4%
ING	0.7%
Wellington	2.0%

- 8.3 At the January 2005 meeting of the Panel Trustees agreed that a full review of the Fund's strategy be commissioned. The results of the review are likely to be available around the time that our structure has been in place for a little over three years in September 2006.
- 8.4 Our latest quarterly meetings took place on 11 May 2006 between each Fund Manager, Howard Jones (independent advisor to Trustees), Head of Finance – Budgeting, Projects & Treasury. A summary of the key issues discussed at those meetings is set out below.

8.4.1 Bernstein

- Performance to date.
- Governance and SRI.

8.4.2 Capital International

- Performance to date.
- Governance and SRI.

8.4.3 Fidelity

- Performance to date.
- Governance and SRI.

8.4.4 ING

- Performance to date.
- Investment Opportunities
- Benchmarks

8.4.5 Wellington

- Performance to date.
- Strategic options to address performance shortfall.
- Governance and SRI.

9. Conclusions

- 9.1 The combined Haringey fund has increased in absolute terms since inception by 19.41% and under performed against the gross benchmark by 0.35% and gross target by 2% in annualised terms.
- 9.2 Bernstein and Fidelity have met their agreed benchmarks to date. The annualised performance of Capital is 0.26% below benchmark to date and ING is 0.04% below benchmark.
- 9.3 The performance of Wellington is still a concern as annualised under-performance compared to benchmark and target since inception are 2.29% and 4.29% respectively. Performance in the quarter to March 2006 was 2.62% below target so the under performance has increased since that reported to the last meeting. We will continue to monitor carefully as agreed as part of the healthcheck.
- 9.4 As discussed at the last meeting of the Panel, ING'S benchmark has started to become more volatile as the constituent holdings have grown significantly. As part of the review of investment strategy we will consider whether to change this benchmark, as this would involve taking more risk in order to outperform.

10. Budget monitoring for 2006/07 to end of April 2006

- 10.1 The Budget monitoring analysis to period 1 (end of April 2006) is attached in Appendix 3.
- 10.2 Significant variances to date are:
- transfer values paid and received where volumes will vary by year and timing within years,
 - employee and employer contributions, pensions and other benefits that are partly dependent upon transfers in and out of the scheme.
 - investment management expenses which are influenced by timing of receipt of invoices from Fund Managers and market values.
 - investment income which is dependent upon investments made.
- 10.3 In overall terms spend to date is within the approved budget. The current surplus is being monitored carefully so that any net gain is invested at the appropriate time in line with the new investment strategy.

11. Training

- 11.1 The future training requirements for trustees was given initial consideration at the Panel meeting in January. It was agreed to consider requirements further once Trustees were agreed for the new Municipal year.
- 11.2 The new Panel consists of 2 ex-Trustees and 6 new Trustees.

- 11.3 The council's investment advisers Hymans Robertson have offered to run a training course targeted at elected member trustees of local authority schemes.
- 11.4 The course has been designed with the objectives of the elected members acquiring a level of understanding of:
- their responsibilities as an administering authority of a local government pension fund.
 - the fundamental requirements relating to pension fund investments.
 - the operation and administration of the pension fund.
 - controlling and monitoring the funding level.
 - taking effective decisions on management of the Council's Pension Fund.
- 11.5 The course can be provided in a range of formats including a two day intensive course or spread over several sessions as required and can be run in Haringey if required.
- 11.6 Further details on course content ,format and the costs of the course to the fund are shown in Appendix 5.
- 11.7 Our Fund Managers could be approached to provide training on various investment matters e.g. bonds as this is a relatively complex area. This could be done as part of a wider half day or evening of training.
- 11.8 Trustees views are sought as to the way forward.
- 11.9 Northern Trust are running a one day training course for local authority trustees on 21 June 2006. The course is designed to provide an overview of the following topics:
- risk and performance
 - basic methods of performance calculation
 - methods of performance measurement including attribution
- 11.10 Councillor Bevan and Roger Melling will be attending this course.

12. Pensions Administration

Local Government Pension Scheme (Amendment) Regulations 2006

The above mentioned regulations have introduced a number of changes to the LGPS which are being notified to scheme members.

The main changes are:-

- Phasing out of the 85 Year Rule which enables members to retire voluntarily from age 60 and before age 65 with unreduced benefits provided their years of service and age add up to 85. This rule also applies to members age 50 and under age 60 with employer consent.

- A simplified approach to the tax regime governing tax exempt pension schemes.
- Membership of the scheme permitted up to age 75 (previously 65)
- A normal retirement age of 65 for all members
- Greater flexibility on contributions payable to tax registered schemes
- Limit on 40 years service in the LGPS no longer applies
- More flexibility in exchanging pension for a tax free lump sum.
- Options on flexible retirement introduced.

Flexible Retirement

The scheme changes allow members age 50 and over to either reduce their hours of work or remuneration and access their pension at the same time.

Pensions claimed before age 65 will be subject to an actuarial reduction to protect the Fund from any cost that arises from the early payment of benefits. Advice from the Government Actuary's Department (GAD) is awaited on how to calculate the reduction in benefits.

A report on the details of a scheme for Flexible Retirement will be submitted to Members in October this year.

Employers Meeting 25 May 2006

A summary of the meeting held on 25 May 2006 with Employers who participate in the Fund is attached as Appendix 4.

Arising from the meeting, the Council is asked to consider inclusion of the employing bodies in any future consultation process affecting the Council's investment Strategies.

The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006: Consultation draft

The Department for Communities and Local Government (DCLG) have issued draft regulations amending the provisions for payment of redundancy and compensation for early termination of employment.

The changes are required to meet compliance with the Age Discrimination Act 2006 which comes into effect on 1 October this year.

The proposed changes remove the provisions for payment of compensatory added years and the award of up to 66 weeks pay both of which are dependent on age and service.

These are replaced by discretion to award up to two years pay less any redundancy payment made.

This change is in line with the Council's earlier response to the DCLG's consultation on the government's White Paper 'Facing the Future'.

Changes to the Council's policy on the exercise of its discretions will be submitted to Members in October this year.

Early Retirements; Quarterly Report to 31 March 2006

During the period from 1st April 2005 to 31st March 2006 the following number of early retirements from Haringey Council were approved.

Haringey Council		Early Retirements 1 April 2005 to 31 st March 2006			
Approved by D o F	Cases	Basic Cost	Capital	Cost of Added Years	Total Cost
	Redundancy:				
	4	£ 101,000		£0	£101,000
	Efficiency				
		£ 0		£0	£ 0
	The 85 year rule				
	0	£ 0		£0	£ 0
	Sub-Total				
	4	£ 101,000		£0	£101,000
Approved by Members	Cases	Cost of Added Years	Basic Cost	Capital	Total Cost
	Efficiency				
	2	£431,000		£163,000	£594,000
	Redundancy				
	2	£166,000		£63,000	£229,000
	85 Year Rule				
	0				
	Sub Total				
	4	£597,000		£226,000	£823,000
Employing Bodies					
	Redundancy	Cost of Added Years	Basic Cost	Capital	Total Cost
	0	£0		£0	£0
	Efficiency				
	0	£0		£0	£0
	The 85 Year Rule				
	0	£0		£0	£0
	Sub-Total				
	0	£0		£0	£0
Total For Haringey Council and Employing Bodies					
	8	£698,000		£226,000	£924,000

The early retirements for Haringey Council reported above, were approved under the terms of the scheme regulations and the Council's Policy on the use of its discretionary powers

Appeals Process; Quarterly Report to 31 March 2006

s Process Quarterly Report	Number Received	Upheld	Not Upheld
Stage 1 Appeal	1	0	0
Stage 2 Appeal	1	0	1
Pensions Ombudsman	1	1	0
Total	3	1	1

Life Certificates

The Council participates in the Audit Commission's national fraud initiative whereby payroll data is shared by participating local authorities and the DWP. This enables a check to be made that pensions are being properly paid to the recipients

Pensioners living abroad are sent a Life Certificate to complete on a triennial basis

Legislative Requirements.

The scheme administration is carried out having regard to the requirements of the relevant pension scheme regulations, data protection and disclosure of information legislation.

Employers Meeting 25 May 2006

The meeting was attended by:-

- Haringey Accord
- Greig City Academy
- Haringey Age Concern
- Alexandra Palace Trading Co.

The Officers attending were :-

I M Benson Pensions Manager
J E Richards Principal Team Leader

The meeting welcomed the Council's desire to engage with its employing bodies and three specific issues were discussed:-

1. Representation at Panel meetings

The employers were informed that the Chair of Pensions Panel was very anxious to have employers represented at Panel meetings.

However the Council had ultimate responsibility for the good management of the Pension Fund. Therefore whilst participation at Panel meetings would allow employers to discuss the issues being considered on an equal basis with the trustees, in the absence of any formal structure to elect an employer body representative, it was unlikely that there would be the right to vote.

Employers were reminded that the Panel minutes were issued to them so that they could raise issues either with Officers or with the Chair.

Employers who wish to attend Panel meetings were advised that they should give advance notice to Member Services so that the Chair could be informed and appropriate accommodation booked.

2. Consultation

A request was made for consultation with employers on the formulation of the Council's strategic investment policies. It was agreed that this would be taken back for consideration.

3. Operational issues and Scheme changes

The Employers requested that meetings between Pensions Officers and Representatives from the employing bodies should be held to facilitate a dialogue on operational issues as well as affording an opportunity for updating employers on scheme changes.

Although such meetings currently take place to discuss issues arising from the fund valuation process, it was agreed that at least one meeting a year will be held for employers to meet with relevant Officers. Where circumstances warranted it, further meeting would be held.

A presentation followed on the recent changes to the LGPS.

The implication for employers were discussed particularly the need to notify leavers at least one month before their last day of service, and the consequences of deducting pension contributions in error.

New regulations were expected in October 2006 that will place a statutory duty on employers to notify administering authorities of relevant events within set time scales.

Employers were advised to use the intervening period as opportunity to check that their procedures around notifying Starters, Leavers and Hours changes were working effectively.

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