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.

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

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.

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 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.

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;

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 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.

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The meeting ended at 9:30pm

Signed……………………………………………………………………….....

Date……………………………………………………………………….…...

COUNCILLOR GMMH RAHMAN KHAN
CHAIR.