

REPORT FOR: Pension Fund Committee

Date of Meeting: 6 September 2016

Subject: Pension Fund Committee - Update on Regular Items

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No.

Wards affected: All

Enclosures: Appendix 1 – Fund Valuation and performance

Section 1 – Summary and Recommendations

Summary

This report updates the Committee on regular items as follows:

- Draft work programme on which the Committee's comments and agreement are requested.
- Performance of fund managers for previous periods
- Issues raised by Pension Board

Recommendation

That, subject to any comments the Committee wish to make, the work programme for the period up to March 2017 be agreed.

Section 2 – Report

A Introduction

1. This report updates the Committee on regular items as follows:
 - Draft work programme for 2016-17 (Sub-section B)
 - Performance of fund managers for periods ended 30 June 2016 and valuation at 31 July 2016 (Sub-section C)
 - Issues raised by Pension Board (Sub-section D)

B Draft Work Programme 2016-17

2. Below is a draft for the Committee to consider as its programme of work for the remainder of the financial year.

13 October (14.00- 19.00) – “Meet the Managers”

14.15 – 15.00 Aviva Investors Global Services

15.15 – 16.00 Insight Investment

16.15 – 17.00 BlackRock Investment Management (UK) Ltd

17.15 – 18.00 Oldfield Partners

18.15 – 19.00 GMO LLC

22 November 2016

Update on Regular Items:

- Draft work programme for 2016-17 and 2017-18
- Performance of fund managers for periods ended 30 September 2016
- Issues raised by Pension Board

Investment manager monitoring

Statement of Investment Principles / Investment Strategy Statement

Pooling and London Collective Investment Vehicle

Update on triennial valuation

Medium term cashflow

Audited Annual Report and Financial Statements 2015-16 including Auditors' Report

Quarterly Trigger Monitoring

Environmental, Social and Governance Issues

Lead Member roles

Training session at 5.30 – tbc

7 March 2017

Update on Regular Items:

- Draft work programme for 2016-17 and 2017-18
- Performance of fund managers for periods ended 31 December 2016
- Issues raised by Pension Board

Investment manager monitoring

Pooling and London Collective Investment Vehicle

Results of triennial valuation

Funding Strategy Statement

Monitoring of operational controls at managers

External audit plan

Training programme 2017-18

Quarterly Trigger Monitoring

Environmental, Social and Governance Issues

Training session at 5.30 – tbc

3. The Committee will have the opportunity to update this programme at every meeting but are invited to comment on the draft above and agree it at this stage.
4. In addition to the Committee's work programme training opportunities will be offered for an hour prior to each meeting.

C Performance of Fund Managers for Periods Ended 30 June 2016 and Valuation at 31 July 2016.

5. Attached is a table summarising the Fund valuation at 30 June 2016 and 31 July 2016 and estimated fund performance for the year to date.
6. The Committee are aware that for periods up to 31 March 2016 performance data was provided by State Street Global Services but that this service is no longer available to the Fund. Over coming months, the ability of the Council to calculate its own performance data will increase but, for this report, the simple relationship of the valuations of the various investments compared to the baselines of 30 June 2015 and 31 March 2016 has been used.
7. The value of the Fund at the end of June 2016 had increased over the quarter from £661m to £695m (5.1%) and by the end of July 2016 had increased further to £724m (9.6%). These increases have been due almost entirely to the large increases in the values of the equities portfolios with their global bias and substantial valuations in dollars, euros and yen all of which have appreciated in value against sterling. The Fund's hedging strategy has, of course, mitigated some of the gains.
8. The one year return of -1.9% was below the benchmark of -0.4% due mainly to the disappointing performance of the Insight (-10.7%), Standard Life (-9.4%) and Oldfields (-8.3%) mandates partly offset by the good relative performance of Pantheon (19.1%) and Longview (4.5%).

D Meeting of Pension Board on 28 June 2016

9. The Pension Board met on 28 June. The agenda they considered is detailed below together with the most significant points raised by them.

Actuarial Valuation 2016

The Board received a presentation from the Actuary, Hymans Robertson and raised queries with the Actuary and officers. They noted the report.

Draft Annual Report and Financial Statements for the Year Ended 31 March 2016

The Board received a report which presented the Draft Annual Report and Financial Statements for the Year Ended 31 March 2016. Points made by the Board included:

- They noted the improved commentary as they had previously requested
- They noted the reduction in the net assets of the Fund over the year
- They were advised of the Fund deficit at the time of the last triennial valuation in March 2013 (£234m) and the deficits at 31 March 2015 (£357m) and 31 March 2016 (£300m) calculated on the IAS19 basis.
- They expressed concern over the length of time it takes for the Fund to change managers and of the fact that 34% of the Fund's investments are placed with a single manager (State Street Global Advisers)
- They requested information as to whether any of the scheduled or admitted bodies had payments outstanding at the end of the year and, if so, that reference should be made to this in the Accounts.

The Board noted the report

Management and Investment Expenses Benchmarking

The Board noted the report

Pension Fund Committee Meeting 9 March 2016

Members of the Board who had attended the meeting of the Committee expressed concern over the suggestion that the Fund should invest locally and in the building of houses. They agreed that there should be independent advice on the governance of the Fund before going ahead with such investments.

The Board noted the report

Draft Annual Report to Council 2016

They Board considered the content of the report they need to present to Council on 22 September 2016. Having considered factual information provided by officers they commented:

- The report needed to include a flavour of the work done;
- The membership was for three years and if it changed at that point there was concern that work would have to be started again;
- There were a number of new Members on the Pension Fund Committee who would therefore need to develop their knowledge of the subject matter;
- The Pension Fund Committee needed to value the Board and its work and development of a relationship would be beneficial. Joint training or presentations outside the formal meeting process may assist in this;
- The Chair of the Pension Fund Committee was welcome to attend the Board

Work Programme 2016-17

The Board received the report. Points considered included:

- Monitoring information on the administration of the Fund would be included for future meetings
- The Chair suggested that a joint meeting with the Pension Fund Committee be convened in September for consideration of the actuarial valuation

Annual Review of Internal Controls at Longview Partners

The Board noted the report

Financial Implications

10. There are several matters mentioned in this report, particularly asset allocation and manager performance which have significant financial implications but there are no direct financial implications arising from the report as the main purpose of the report is to provide an update on regular items.

Risk Management Implications

11. The Pension Fund has a risk register which includes all the risks identified which could affect the management of the Pension Fund.

Equalities implications

12. There are no direct equalities implications arising from this report.

Council Priorities

13. The financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Director of Finance
Date: 18 August 2016		
Name: Noopur Talwar	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 24 August 2016		

Ward Councillors notified:	Not applicable
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Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager 0208 424 1450

Background Papers - None

Fund Valuation and Performance

30 June and 31st July 2016

Asset Class	Value 31.03.2016 £'000	Value 30.06.2016 £'000	Movement in Qtr 1 - 2016	Value 31.07.2016 £'000	Movement YTD (Mar to Jul16)	Allocation 31.07.2016 %	Strategic Allocation %	Strategic Range %
Global Equities								
Longview	75,499	75,623	0.16%	78,256	3.65%	11	11	
State Street	219,424	238,557	8.72%	250,613	14.21%	35	31	
GMO	71,463	80,016	11.97%	84,059	17.63%	11	10	
Oldfields	70,701	78,431	10.93%	83,562	18.19%	11	10	
Total Global Equities	<u>437,087</u>	<u>472,627</u>		<u>496,489</u>				
Total Equities	<u>437,087</u>	<u>472,627</u>	8.13%	<u>496,489</u>	13.59%	<u>68</u>	<u>62</u>	<u>58-68</u>
Private Equity								
Pantheon	20,571	20,669	0.48%	20,669	0.48%			
Total Private Equity	<u>20,571</u>	<u>20,669</u>		<u>20,669</u>		<u>3</u>	<u>5</u>	<u>4-6</u>
Property								
Aviva	53,481	53,392	-0.17%	53,247	-0.44%			
Total - property	<u>53,481</u>	<u>53,392</u>		<u>53,247</u>		<u>7</u>	<u>10</u>	<u>8-12</u>
Bonds								
Blackrock - FI	69,401	74,456	7.28%	78,692	13.39%	11	10	10
Blackrock - IL	17,577	18,663	6.18%	18,647	6.09%	3	3	3
Total Bonds	<u>86,978</u>	<u>93,119</u>	7.06%	<u>97,339</u>	11.91%	<u>14</u>	<u>13</u>	<u>11-15</u>
Alternatives								
Insight	27,071	27,590	1.92%	28,182	4.11%	4	5	5
Standard Life	29,216	28,837	-1.30%	29,068	-0.51%	4	5	5
Total Alternatives	<u>56,287</u>	<u>56,427</u>	0.25%	<u>57,250</u>	1.71%	<u>8</u>	<u>10</u>	<u>8-12</u>
Cash & NCA								
Cash Managers	44	44		828				
Cash NatWest	10,048	7,552		5,770				
Record passive currency hedge	-6,388	-11,426		-9,705				
Cash Custodian (JP Morgan)	1,437	32		21				
Debtors and Creditors	1,306	2,574		2,361				
CIV Investment	150	150		150				
Total Net Current Assets	<u>6,597</u>	<u>-1,074</u>		<u>-575</u>		<u>0</u>	<u>0</u>	
Total Assets	<u>661,001</u>	<u>695,161</u>	5.17%	<u>724,420</u>	9.59%	<u>100</u>	<u>100</u>	