



Buckinghamshire County Council

Agenda

PENSION FUND COMMITTEE

Date	Thursday 26 July 2007
Time	9.30 am
Venue	Mezzanine Room 3, County Hall, Aylesbury

Agenda Item	Page No
1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP	
2 DECLARATIONS OF INTEREST To declare any personal and prejudicial interests	
3 MINUTES of the meeting held on 31 May 2007, to be confirmed.	1 - 4
4 PENSION FUND ANNUAL PERFORMANCE 2006/07 The Report of the Treasury Manager and Annual performance review by WM Company is attached. A copy of the WM Performance Commentary for Buckinghamshire County Council is attached. The WM Annual Review UK Local Authority 2006/07 will follow shortly.	5 - 8
5 DATE OF NEXT MEETING The next meeting of the Pension Fund Committee will be held on 20 September 2007 in the New Ireland Room.	

Dates of future meetings:

2007	2008	2009
29 November	21 February	5 March
	17 April	2 April
	29 May	
	11 September	
	23 October	
	20 November	

- 6 EXCLUSION OF THE PRESS AND PUBLIC**
To resolve to exclude the press and public as the following item is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
- 7 LA SALLE INVESTMENT MANAGEMENT - PRESENTATION**
- 8 CONFIDENTIAL MINUTES** **9 - 12**
Of the meeting held on 31 May 2007, to be confirmed.
- 9 INVESTMENT STRATEGY REVIEW AND CASH FLOW** **13 - 28**
Report by Mercer Investment Consulting.

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Members

Mr S Crooks	Mr D Meacock
Mr F Downes (C)	Mr D Phillips
Mr P Hardy (VC)	Mr C Tallack
Mr Q Ings-Chambers	J Wassell
Mr C Jones	



Buckinghamshire County Council

Minutes

PENSION FUND COMMITTEE

MINUTES OF THE MEETING OF THE PENSION FUND COMMITTEE HELD ON THURSDAY 31 MAY 2007, IN MEZZANINE ROOM 2, COUNTY HALL, AYLESBURY, COMMENCING AT 9.32 AM AND CONCLUDING AT 12.54 PM.

MEMBERS PRESENT

Mr S Crooks, Mr F Downes (Chairman), Mr P Hardy (Vice-Chairman), Mr Q Ings-Chambers, Mr C Jones, Mr D Meacock, Mr D Phillips and Mr C Tallack

OFFICERS PRESENT

Harriet Anthony, Mercer Investment Consulting
Julie Edwards, Treasury Manager (Finance)
Keith Neale, Independent Adviser
Anwen Owens, Mercer Investment Consulting
Clive Palfreyman, Assistant Head of Finance (Corporate Financial Services)
Jacqueline Yates, Interim Head of Finance

AGENDA ITEM

1. ELECTION OF CHAIRMAN

RESOLVED

That Mr F Downes be elected Chairman of the Committee for the ensuing year.

2. APPOINTMENT OF VICE CHAIRMAN

RESOLVED

That Mr P Hardy be appointed Vice-Chairman of the Committee for the ensuing year.

3. APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

There were no apologies for absence.

Members noted that Mr Sam Crooks was replacing Mr Patrick Magee as representative for the Thames Valley Police Authority, and this would be the last meeting for Mr Cec Tallack representative from Milton Keynes Council. His replacement will be Mr Phil Gerrella.

4. DECLARATIONS OF INTEREST

There were no declarations.

5. MINUTES

The minutes of the meeting held on 19 April 2007 were agreed as a true record, subject to the following amendments:

Item 4 Fund Managers Presentation – Pantheon

Fifth paragraph: insert the word 'not' after '...but the officers did *not* consider....
Paragraph to read

Sixth paragraph: delete the word 'well' after '....was now well organised....'

Item 5 Implementing new Pension Fund Governance Arrangements

Twelfth paragraph: the Section of the LGA 1972 referred to should be Section 101.

6. PENSION FUND PERFORMANCE

Members received the report of the Treasury Manager, the purpose of which was to present the performance of the Pension Fund's managers for the first quarter of 2007.

Members noted the following:

- The market value of the fund had increased from £1,166m to £1,201m during the three months ending 31 March 2007.
- Two Funds had underperformed against the benchmark by 1% and 1.5% respectively (net relative return).
- The underperformances were offset by good performances from two other Fund Managers.
- In the Local Authority League Tables, the three years and five years percentiles demonstrated the improving trend in the Fund's performance. For the fourth quarter in 2006, the Fund was ranked in the 33rd percentile.

A member expressed concern at the poor performance of Alliance Bernstein and Capital International over the other fund managers as well as the percentage holding for each fund manager. The Chairman commented that the Committee would be re-visiting the investment strategy in November to make any changes as necessary.

Members were keen to see where the BCC Pension Fund ranked at the end March 2007 in the WM statistics, bearing in mind the improvement in the December 2007 quarter. Mercers was monitoring the current market impact on bonds.

Although overall the Pension Fund was doing well, members agreed to wait until after the WM Company statistics for the quarter ending 31 March 2007, before considering whether a press statement celebrating the performance of the Fund over previous years was appropriate.

7. FUND MANAGER'S PRESENTATION - CAPITAL INTERNATIONAL

The Chairman welcomed Michael Ericksen and Keith Baker from Capital International.

A copy of the presentation is available by contacting the clerk to the meeting.

The presentation covered three major topics:

- Performance
- Market background and future
- Benchmark changes, with a review of the last 12 months. This included fee reduction and investment process changes.

The Chairman thanked the officers from Capital International for their presentation.

8. MEMBERS' TRAINING

Members received the report from Anwen Owens and Harriett Anthony on the Training Needs Analysis.

Mercers suggested that members receive training sessions on Investment, Actuary, Legal and Administration

It was suggested that each session should last at least three hours and be separate to the Committee meetings. Provision of information in the form of reading material, prior to each training day would be helpful. After each session the training questionnaire would be revisited to ensure members were confident in the particular area covered. Training would be topped up with 30 minutes sessions built into each Agenda.

It was agreed that the sessions should be taken in the following order:

- Actuary
- Investment
- Legal
- Administration

Members will be notified of the dates of the sessions once they have been agreed.

9. FUND MANAGER'S PRESENTATION - MORLEY FUND MANAGEMENT - FUND PERFORMANCE AND INTERNATIONAL PROPERTY

The Chairman welcomed to the meeting James Cooksey, Fund Manger, and Shari Davis, Assistant Fund Manager. Members received an update on the team, performance of the Fund and recommendations for the Committee to consider going forward.

The Chairman thanked the officers from Morley for their presentation.

10. LASALLE INVESTMENT MANAGEMENT PRESENTATION - INTERNATIONAL PROPERTY

This item was deferred until the next meeting of the Committee.

11. DATE OF NEXT MEETING

The next meeting of the Committee will be held on Thursday 26 July 2007 at 9.30am in Mezzanine Room 3, County Hall.

Dates of future meetings are as follows:

20 September 2007 (Please note change of date)

29 November 2007

12. EXCLUSION OF PRESS AND PUBLIC

The Committee agreed to exclude the press and public for the following items, under paragraph 3 of Schedule 12A because the Reports contain information relating to the financial affairs of a particular person.

13. MERCER INVESTMENT CONSULTING PRESENTATION - PRIVATE EQUITY PORTFOLIO STRATEGY PLAN

Members received the report of Anwen Owens from Mercer Investment Consulting.

Members agreed that work should commence at the next meeting on the strategic review. It was agreed that Anwen Owens would produce a paper for the next meeting, setting out options, and including an indication of the cost implications and impact of switching between managers.

14. FUND MANAGERS' PRESENTATIONS - DISCUSSION

Morley Presentation

Members discussed the presentation given by Morley which included a proposal to move into the European market.

It was agreed that La Salle should be invited to the next meeting, to give a presentation with a view to looking at their proposals for European and Worldwide investment.

Capital International

Members discussed the presentation given by Capital International.

Discussion took place regarding whether there was a need to bring forward the strategic review. However, it was agreed that receipt of the valuation was important in informing any decisions and the valuation was not due until September.

CHAIRMAN



Report to Pension Fund Committee

Title: Pension Fund Performance 2006/07

Date: 26 July 2007

Author: Head of Finance

Contact Officers: Julie Edwards (01296) 383910

Summary

To outline the performance of the Pension Fund for the year 2006/07.

Recommendation

The Committee is asked to note the report

Overall Return 2006/07

The Fund overall returned +6.8% in 2006/07, an underperformance of –0.3% compared to its benchmark of 7.1%. Table 1 below shows fund managers' annual performance before fees.

Fund Manager & Mandate	Performance %	Benchmark %	Relative Return %
Alliance Bernstein – less constrained Global Equities	-2.4	+2.6	-4.8
BlackRock – Cash Inflation Plus	+4.7	+4.8	-0.1
Blackstone – Hedge Fund of Funds	+9.6	+4.9	+4.4
Capital International – Global Equities	+3.5	+5.8	-2.2
Legal & General - Active Bonds	+1.3	+1.3	0.0
Legal & General - Passive Equities and Bonds	+7.4	+7.4	0.0
Mirabaud – UK Equities	+11.4	+11.1	+0.3
Morley – Property Fund of Funds	+19.4	+16.5	+2.4
Standard Life – UK Equities	+15.8	+11.1	+4.2
Fund Total	+6.8	+7.1	-0.3

Alliance Bernstein and Capital International, the global equity managers both underperformed their benchmarks. Performance for the Legal & General Investment Management (LGIM) mandates and BlackRock are close to the benchmark. Blackstone, Mirabaud, Morley and Standard Life outperformed their benchmarks.

Each year, the WM Company prepares a detailed analysis of the performance of the Fund in the preceding year coinciding with the WM Company's Annual Review of local authority pension funds. Copies of the WM Performance Commentary for Buckinghamshire County Council and the WM Annual Review UK Local Authority 2006/07 are enclosed with this report. Louis Hill of the WM Company will make a presentation to the meeting.

Market Background

In 2006/07, UK pension funds posted positive returns for the fourth year running. Overall, the average WM All Funds universe, which includes all UK pension funds, increased by 7.0% over the 12-month period. The WM local authority universe increased by 7.0% as shown in Table 2 below. The table also provides a breakdown of returns by sector for the past five years. Property has performed the best over the five-year period.

Table 2 – Annual Returns 2002/03 to 2006/07

	2002/03 %	2003/04 %	2004/05 %	2005/06 %	2006/07 %	2002/03 to 2006/07 %
UK Equities	-30.3	+32.2	+15.6	+27.0	+10.7	+8.4
Overseas Equities	-30.0	+33.0	+9.6	+37.4	+3.6	+7.7
- North America	-32.9	+16.6	+4.0	+24.4	-2.9	-0.4
- Continental Europe	-33.6	+34.7	+18.1	+37.2	+10.9	+9.9
- Japan	-25.8	+44.6	-3.9	+49.0	-10.8	+6.5
- Pacific	-23.4	+38.7	+15.9	+36.8	+17.3	+14.6
- Other International	-28.0	+44.7	+11.7	+53.8	+4.7	+13.4
UK Bonds	+11.5	+3.6	+5.8	+8.3	+0.9	+5.9
Overseas Bonds	+14.9	-0.8	+5.2	+6.2	-3.1	+4.3
Index-Linked	+10.9	+6.3	+5.6	+8.0	+2.7	+6.6
Cash	+3.8	+4.2	+4.8	+6.1	+4.2	+4.6
Other Investments	-10.4	+5.1	+11.5	+25.6	+7.8	+7.3
Property	+10.2	+12.7	+18.2	+21.4	+16.2	+15.6
Total Assets	-19.5	+23.4	+11.7	+24.9	+7.0	+8.2

Buckinghamshire Pension Fund's Performance in 2006/07

The Fund achieved an overall return of +6.8% in 2006/07, -0.2% below the WM local authority average of +7.0%. Overall in 2006/07, the Fund ranked in the 55th percentile. In 2005/06 the Fund ranked in the 22nd percentile and in 2004/05 in the 86th percentile.

The relative performance of the Fund can be attributed both to the weighting of the various categories of investments (asset allocation) and to the choice of stocks within those categories (stock selection). The Fund's asset allocation had a negative impact, decreasing return expectations by 0.2%. Table 3 shows the asset allocation at the start and end of 2006/07 for the BCC Fund and the WM local authority average.

Table 3 – Asset allocation 2006/07

	Fund % 1 Apr 2006	Fund % 31 Mar 2007	WM local authority % 1 Apr 2006	WM local authority % 31 Mar 2007
UK Equities	35.7	33.3	39.1	37.8
<u>Overseas Equities</u>	35.0	34.8	31.4	31.6
- North America	9.6	12.1	8.4	8.3
- Continental Europe	13.0	11.3	10.2	10.3
- Far East	8.8	6.9	8.0	7.3
- Other	3.6	4.5	4.8	5.7
UK Bonds	14.1	15.3	9.6	10.2
Overseas Bonds	0.4	0.5	2.7	2.1
UK Index-Linked	3.5	2.7	4.4	4.4
Cash	1.8	1.5	3.8	3.5
Other Investments	2.7	3.6	1.6	2.3
Property	6.7	8.4	7.3	8.0
Total	100.0	100.0	100.0	100.0

Stock selection reduced the overall return by 0.1%. Table 4 sets out the annual returns by investment category for the individual managers.

Table 4 – Annual Returns 2006/07

	Alliance Bernstein %	Black Rock %	Black stone %	Capital %	LGIM Passive %	LGIM Active %	Mirabaud %	Morley %	Standard Life %
UK Equities	+16.7	-	-	+6.0	+11.1	-	+11.7	-	+15.8
<u>Overseas Equities</u>									
- North America	-6.2	-	-	-7.7	-0.8	-	-	-	-
- Continental Europe	+4.3	-	-	+9.8	+12.3	-	-	-	-
- Japan	-14.3	-	-	-7.6	-9.8	-	-	-	-
- Pacific	+10.6	-	-	+19.8	+20.5	-	-	-	-
- Other	+2.0	-	-	+9.2	+9.4	-	-	-	-
UK Bonds	-	-	-	-	+0.9	+0.9	-	-	-
Overseas Bonds	-	-	-	-	-	-1.5	-	-	-
UK Index-Linked	-	-	-	-	+3.0	+3.0	-	-	-
Property	-	-	-	-	-	-	-	+19.4	-
Absolute Return	-	+4.7	-	-	-	-	-	-	-
Hedge Fund of Funds	-	-	+9.6	-	-	-	-	-	-
Cash	-	-	-	+1.7	-	-	-	-	-
Total Assets	-2.4			+3.5	+7.4	+1.3	+11.7	+19.4	+15.8

Long Term Performance

The WM Company has monitored the performance of the BCC Fund for over ten years. Table 5 illustrates the relative performance of the fund over ten, five and three year periods.

Table 5 – Investment Performance

	10 years %	5 years %	3 years %
WM local authority Average	+7.7	+8.2	+14.3
BCC Fund	+6.1	+7.2	+14.0
Relative	-1.5	-0.9	-0.2
Percentile	95	81	51

Conclusion

Alliance Bernstein and Capital International, the global equity managers both underperformed their benchmarks by –4.8% and –2.2% respectively. Performance for the Legal & General Investment Management (LGIM) mandates and BlackRock are close to the benchmark. Blackstone, Mirabaud, Morley and Standard Life outperformed their benchmarks by +4.4%, 0.3%, 2.4% and 4.2% respectively.

Over the three years 2004/05 to 2006/07 the Fund underperformed against the WM local authority average by -0.2%.

Background Papers

WM Annual Performance Review 2006/07 for Buckinghamshire County Council
WM Annual Review UK Local Authority 2006/07.

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.

Agenda Item 8

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 9

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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