



Buckinghamshire County Council

Agenda

PENSION FUND COMMITTEE

Date Thursday 29 May 2008
Time 9.30 am
Venue Mezzanine Room 3, County Hall, Aylesbury

Agenda Item	Page No
1 ELECTION OF CHAIRMAN	
2 APPOINTMENT OF VICE CHAIRMAN	
3 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP	
4 DECLARATIONS OF INTEREST To declare any personal and prejudicial interests	
5 MINUTES of the meeting held on 17 April 2008	1 - 4
6 FUND MANAGERS' PERFORMANCE FOR THE FIRST QUARTER OF 2008 Report from Julie Edwards, Treasury Manager.	5 - 12
7 PRESENTATION FROM GOLDMAN SACHS ASSET MANAGEMENT - CURRENCY	
8 TRAINING PLAN 2008 Report from Clive Palfreyman, Assistant Head of Finance.	13 - 16
9 DATE OF NEXT MEETING The next meeting of the Committee will be held on Thursday 11 September, 2008.	

Dates of future meetings:

2008
23 October
20 November

2009
5 March
2 April

- 10 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)
- 11 CONFIDENTIAL MINUTES** **17 - 18**
of the meeting held on 17 April 2008.
- 12 PENSION FUND COMMITTEE MEMBER ADVISOR** **19 - 22**
Report of Clive Palfreyman, Assistant Head of Finance.

*For further information please contact: Maureen Keyworth on 01296 383603
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Members

Mr S Crooks	Mr Q Ings-Chambers
Mr F Downes (C)	Mr C Jones
Mr T Egleton	Mr D Meacock
Mr P Gerrella	Mr D Phillips
Mr P Hardy (VC)	



Buckinghamshire County Council

Minutes

PENSION FUND COMMITTEE

MINUTES OF THE MEETING OF THE PENSION FUND COMMITTEE HELD ON THURSDAY 17 APRIL 2008, IN MEZZANINE ROOM 3, COUNTY HALL, AYLESBURY, COMMENCING AT 9.30 AM AND CONCLUDING AT 11.45 AM.

MEMBERS PRESENT

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

OFFICERS PRESENT

Julie Edwards, Treasury Manager (Finance)
Keith Neale, Independent Adviser
Anwen Owens, Mercer Investment Consulting
Clive Palfreyman, Assistant Head of Finance (Corporate Financial Services)
Harriet Anthony, Mercer Investment Consulting
Clive Parker, Democratic Services Manager
Liz Boakes, Senior Pensions Officer

AGENDA ITEM

1. APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies for absence were received from Mr S Crooks.

It was reported that Mr T Egleton was a permanent replacement for Julia Wassell.

2. DECLARATIONS OF INTEREST

Mr Q Ings-Chambers informed the Committee that he would shortly be taking up a position with Barings.

3. MINUTES

The minutes of the meeting of the Committee held on 28 February 2008 were confirmed subject to :-

- the amendment of paragraph two in item 5 on page 2 to read "The market value of the fund increased from £1,268m to £1,285m during the three months ending 31 December 2007"

-the insertion of a comma after the word "liquidity" in paragraph 6 of item 5 on page 2

4. PENSION FUND CONSULTATIVE GROUP - UPDATE

The Committee received the minutes of the Pension Fund Consultative Group (PFCG) and an update from Clive Palfreyman, Assistant Head of Finance. This Consultative Group meeting had not been particularly well attended but Clive had asked for feedback. The Committee noted the PFCG minutes.

5. RISK REGISTER - UPDATE

The Committee received a report from Julie Edwards, Treasury Manager, on the Pension Fund Risk Register. The Risk Register identifies the key risks to the Pension Fund and is reviewed by the Pension Fund Committee at six monthly intervals; the last review had taken place on 29 November 2007. Since the previous review the Risk Register has been updated to include the risk associated with the administration of the Fund in addition to the investment risks.

The Committee considered Appendix 1, which listed P1 – 26 and discussed each one of these Risks. Members agreed the list subject to the following changes:-

P2 - Impact to rise from 2 to 3 and to Red.

P12 - Probability to rise from 3 to 4.

6. SOCIETY OF COUNTY TREASURERS (SCT) VALUATION BENCHMARKING

The Committee received the Assistant Head of Finance's report on Valuation Benchmarking. Following the recent Valuation, the Society of County Treasurers (SCT) had undertaken a benchmarking exercise involving 18 LGPS Administering Authorities regarding the valuation outcome and asset allocation. Members noted the key issues arising for the Buckinghamshire Fund. Although the outcomes listed were indicative, and for information only, the Committee were very pleased with the positive performance of the Buckinghamshire Fund. It was suggested that a newsletter should be circulated outlining the positive position. It was agreed however, that Clive Palfreyman be asked to obtain, and circulate to members, the full SCT survey.

7. CURRENCY RISK

The Committee received a presentation from representatives of Alliance Bernstein on Currency Risk. Graeme Griffiths, Senior Portfolio Manager – Global Value Equities, Les Komaromy, Director – Client Services, and Jenny Segal, Director – Client Services, gave members a detailed insight into Currency Management. In summary, Alliance Bernstein, emphasised that if unmanaged, currency can significantly add to or detract from equity returns. Currency risk should be managed to reduce volatility. The representatives told the Committee that there are several ways to address currency risk exposure:-

- Do nothing
- Eliminate part or all of the exposure (“passive hedging”)
- Selectively reduce exposure when appropriate (“active hedging overlay”)
- Selectively reduce exposure when appropriate and add to exposure when appropriate to add alpha (“alpha seeking overlay”)
- Add currency as a stand alone investment option (“pure currency alpha”)

Of these options the Alliance Bernstein preference was for “active hedging overlay”. Les Komaromy would come back to the officers with a proposal which was currently being developed. The Committee thanked the Alliance Bernstein representatives for

their presentation and they left the meeting.

The Committee discussed the Presentation and options for the future. It was agreed that before making any decision, more information was needed. Alliance Bernstein's proposal would be considered but members agreed, before any decision is made, that a Standalone Currency Manager should be invited to make a presentation to the Committee's next meeting in May. It was suggested that the speaker should be asked to direct his/her presentation towards the current structure of the Buckinghamshire Fund. After the Committee have received this presentation and received and considered the proposal from Alliance Bernstein they would then agree a way forward.

8. DATE OF NEXT MEETING

The next meeting of the Committee will be held on Thursday 29 May 2008 at 9.30am in Mezzanine Room 3.

9. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the following item which 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)

10. CONFIDENTIAL MINUTES

The confidential minutes of the meeting of the Committee held on 28 February 2008 were confirmed

11. PENSION FUND INVESTMENT STRATEGY

The Committee had a discussion about the extent to which social, environmental or ethical considerations are taken into account in the selection and retention and realisation of investments. Members agreed that this should be reviewed from time to time.

12. PENSION FUND ADVISOR STRUCTURE AND STRATEGY

The Committee discussed the effectiveness of the current arrangements and options for the future.

CHAIRMAN



Report to Pension Fund Committee

Title: Fund Managers' Performance

Date: 29 May 2008

Author: Treasury Manager

Contact Officer: Julie Edwards 01296 383910

Electoral Divisions Affected: n/a

Portfolio Areas Affected: None

Summary

To present the performance of the Pension Fund's managers for the first quarter of 2008.

Recommendation

The Committee is asked to note the report and comment as appropriate.

A. Main issues arising

Fund Value and Asset Allocation

The market value of the Fund decreased from £1,284m to £1,207m during the three months ending 31 March 2008. Table 1 below shows the asset allocation, the distribution of investments across categories of assets, such as cash, equities and bonds:

Asset Allocation by Class	31 Dec 2007		31 Mar 2008	
Equities	£m	£m	£m	£m
UK		404		363
Overseas		447		404
North America	163		146	
Europe (ex UK)	149		139	
Japan	53		50	
Developed Pacific (ex Japan)	23		20	
Emerging Markets	59		49	
Bonds		234		235
Fixed Interest Gilts	193		195	
UK Index-Linked Gilts	41		40	
Property		92		99
Private Equity		1		5
Absolute Return Funds		61		60
Cash		45		41
		1,284		1,207

Table 2 overleaf shows how the Fund's assets as at 31 March 2008 varied from the planned allocation, the percentages change each quarter since the different asset classes generate different returns.

Equities performance in the previous quarter has resulted in the value of UK and global equities as at 31 March falling below the planned allocation by 1.4% and 1.8% respectively.

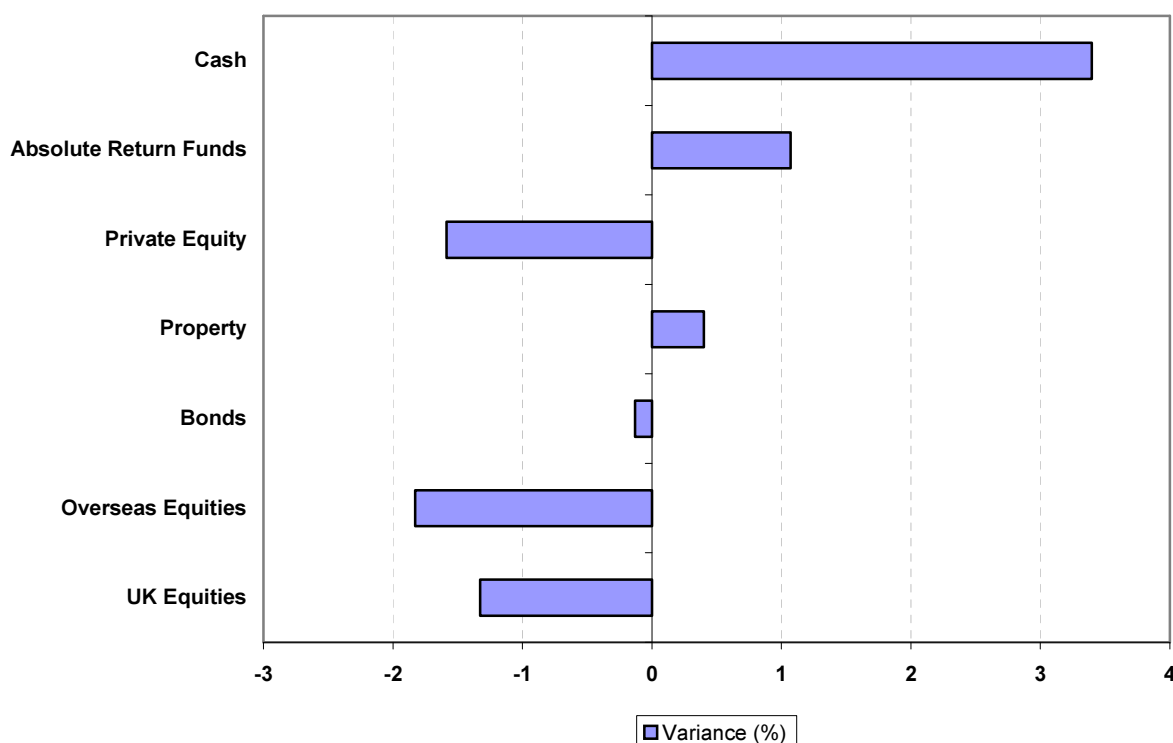
Pension Fund cash exceeds the asset allocation by 3.5% since employee and employer contributions exceed the cost of benefits and administration; following the Pension Fund Committee's decision in 2007 the cash held at 31 March 2008 includes cash allocated to Morley Fund Management, the property manager and other cash balances held by the fund managers for cash flow purposes. Morley is investing the cash on behalf of the Pension Fund until investment opportunities in European property are identified.

The 2% investment in private equity fund of funds, managed by Pantheon Private Equity, will be staggered over the next few years when investment opportunities arise and Pantheon calls on the cash from the Fund; in the meantime the Committee has agreed that up to an additional 2% has been allocated to UK equities.

Asset Class	Asset Allocation as at 31 Mar 2008 %	Strategic Asset Allocation %	Variance From Strategic Allocation %
Equities			
UK	30.0	31.4	-1.4
Overseas	33.5	35.3	-1.8
Bonds	19.5	19.6	-0.1
Property	8.2	7.8	0.4
Private Equity	0.4	2.0	-1.6
Absolute Return Funds	5.0	3.9	1.1
Cash	3.4	0.0	3.4
	100.0	100.0	0.0

Graph 1 shows the percentage difference of the Fund's assets as at 31 March 2008 compared to the investment strategy.

Graph 1 - Variance from Strategic Asset Allocation



The value of the Fund and the mandate managed by each fund manager at 31 December 2007 and 31 March 2008 are shown in Table 3 below:

Fund Manager	Mandate	31 Dec 2007 £m	31 Mar 2008 £m	%
Alliance Bernstein	Less constrained global equities	112	96	8
Blackrock	Cash / inflation plus	22	21	2
Blackstone	Hedge fund of funds	40	39	3
Capital International	Global equities	126	115	10
LGIM*	Passive global equities and bonds	439	404	34
LGIM*	Bonds	184	185	15
Mirabaud	UK equities	141	127	11
Morley	Property fund of funds	115	109	9
Pantheon	Private Equity	1	5	0
Standard Life	Less constrained UK equities	99	90	7
Pension Fund	Cash	5	16	0
Total		1,284	1,207	100

*LGIM – Legal and General Investment Management

Fund Managers Quarterly Performance to 31 March 2008

The combined Fund achieved a gross return of –6.8% compared to its benchmark return of -6.6%, an underperformance of 0.2% for the quarter to 31 March 2008. Table 4 below shows the fund managers' net performance compared to the benchmark:

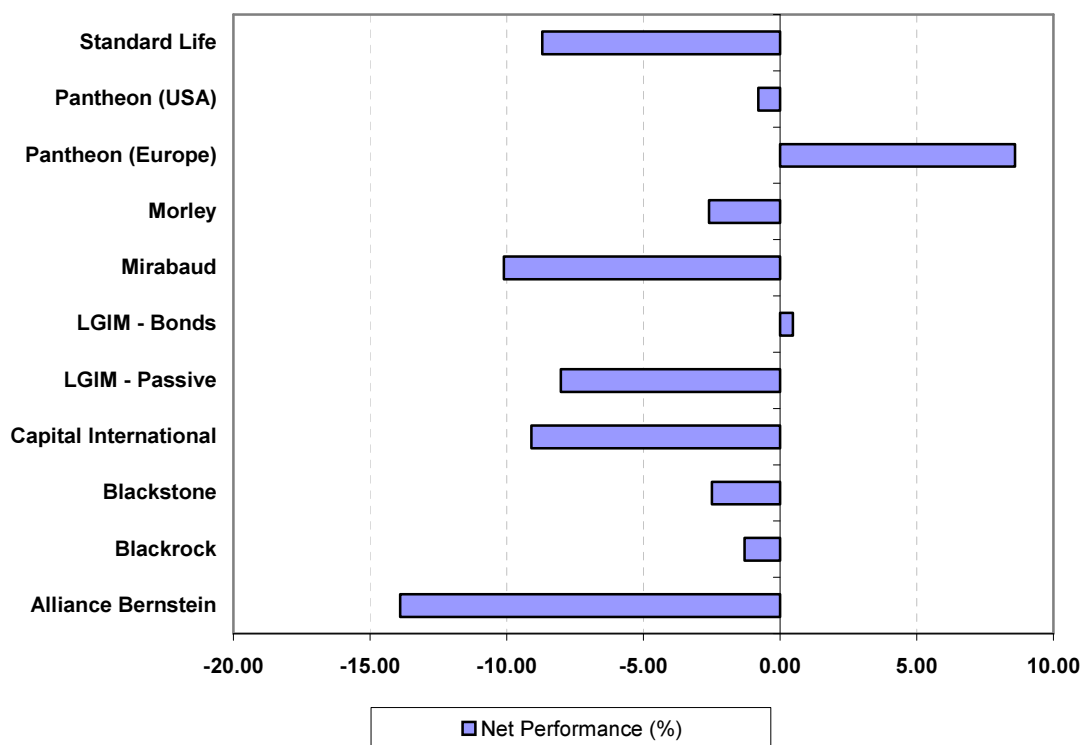
Fund Manager	Mandate	Net Performance %	Benchmark %	Net Relative Return %
Alliance Bernstein	Less constrained global equities	-13.9	-8.8	-5.1
Blackrock	Cash / inflation plus	-1.3	0.6	-1.9
Blackstone	Hedge fund of funds	-2.5	1.3	-3.8
Capital International	Global equities	-9.1	-9.1	0.0
LGIM	Passive global equities & bonds	-8.0	-8.0	0.0
LGIM	Bonds	0.5	0.2	0.3
Mirabaud	UK equities	-10.0	-9.9	-0.2
Morley	Property fund of funds	-2.6	-3.8	1.2
Pantheon (Europe)	Private Equity Fund of Funds	8.6	-8.5	17.1
Pantheon (USA)	Private Equity Fund of Funds	-0.8	-9.4	8.6
Standard Life	Less constrained UK equities	-8.7	-9.9	1.2
			-6.6	

For the quarter to 31 March 2008 LGIM – bonds, Morley, Pantheon and Standard Life outperformed their benchmarks. This is the first quarter that a benchmark has been reported for Pantheon; the performance should be interpreted cautiously since returns in the early years of a private equity fund's life are not generally meaningful due to accepted industry valuation standards. Alliance Bernstein, BlackRock, Blackstone, and Mirabaud, have

underperformed their benchmarks. Capital International and LGIM – passive have matched their benchmarks.

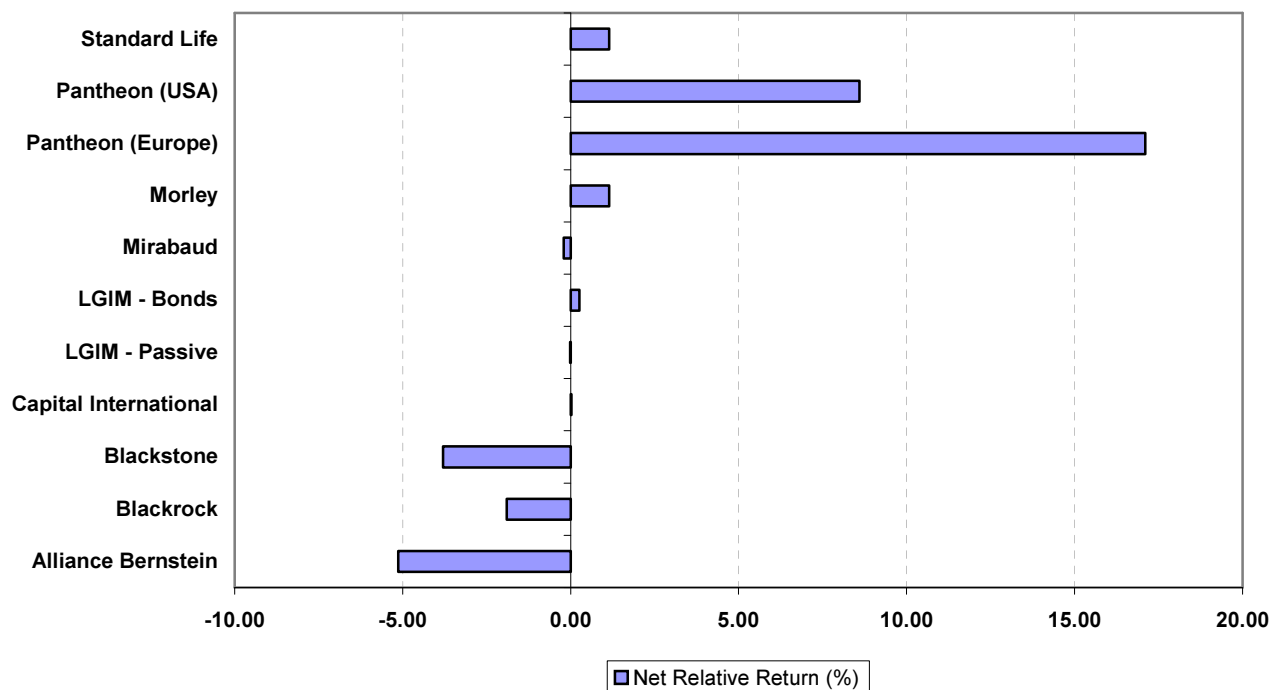
Graph 2 - Fund Managers' Net Performance for the Quarter

Fund managers' actual performance after fees.



Graph 3 - Fund Managers' Net Relative Return for the Quarter

Fund managers' performance after fees compared to their benchmark

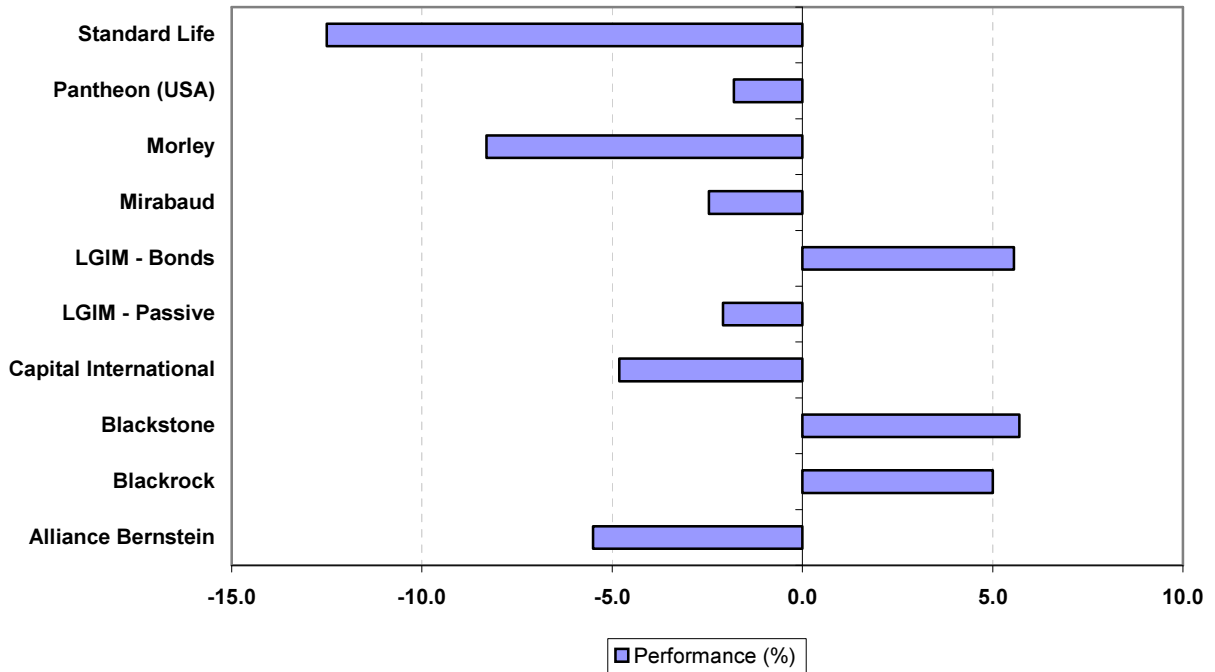


Fund Managers Annual Performance to 31 March 2008

In the year to 31 March 2008 the Fund matched its benchmark, the annual return gross of fees is -2.4%.

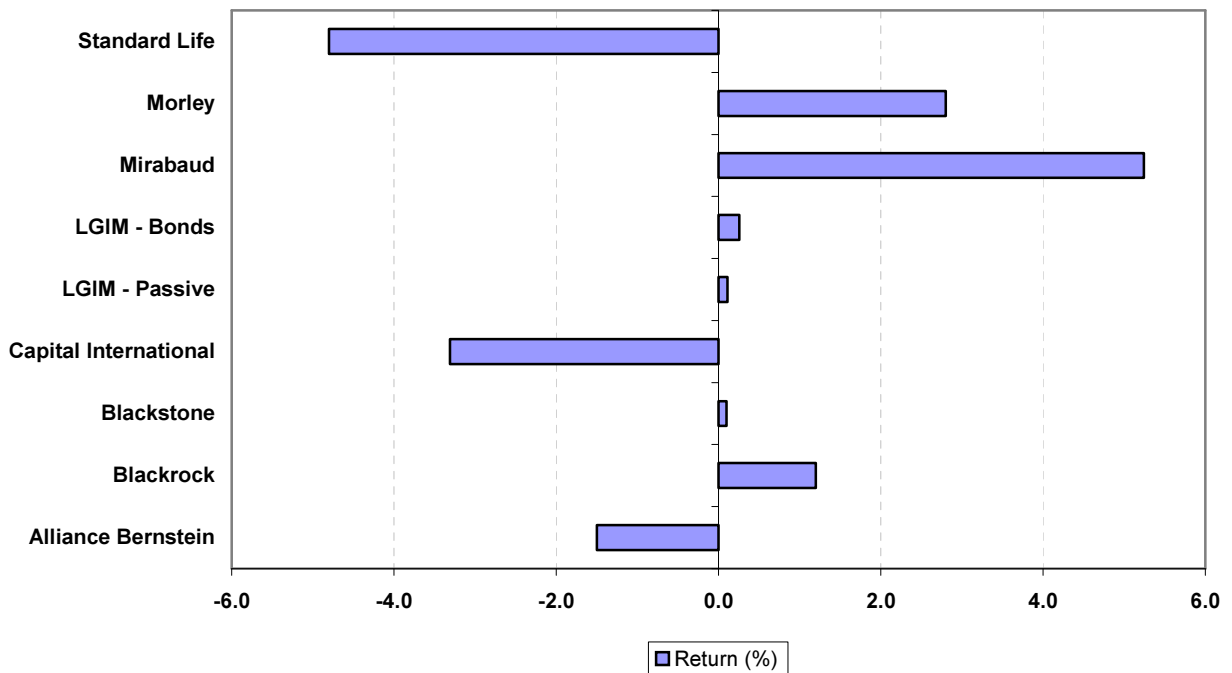
Graph 4 - Fund Managers' Net Annual Performance

Most mandates generated a negative return for the year reflecting the downturn in the equity and commercial property markets. LGIM –bonds, Blackstone and BlackRock generated positive annual returns.



Graph 5 - Fund Managers' Net Annual Relative Return

Graph 5 shows the fund managers' performance after fees over the previous 12 months against their benchmark. Morley, Mirabaud, and BlackRock have outperformed their benchmarks. Standard Life, Capital International and Alliance Bernstein have underperformed their benchmarks. LGIM – passive which tracks the changes in the equity and bond markets has matched its benchmark. LGIM – bonds and Blackstone have generated annual returns similar to their benchmarks.

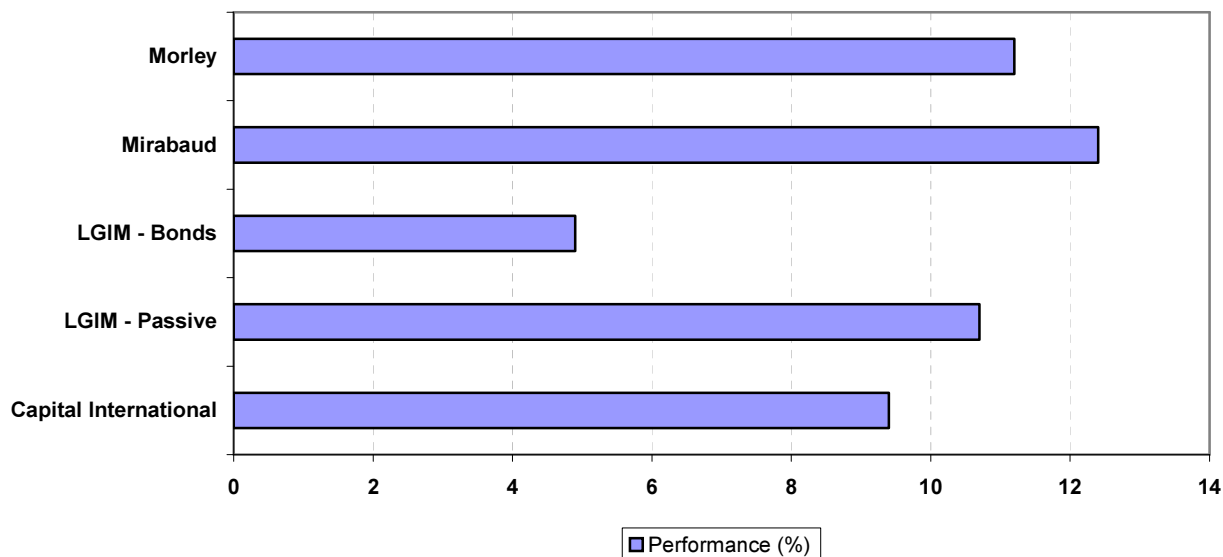


Fund Managers Three Year Performance to 31 March 2008

The Fund achieved a return gross of fees of 9.6% per annum in the 3 years to 31 March 2008 outperforming its benchmark by 0.2% for that period.

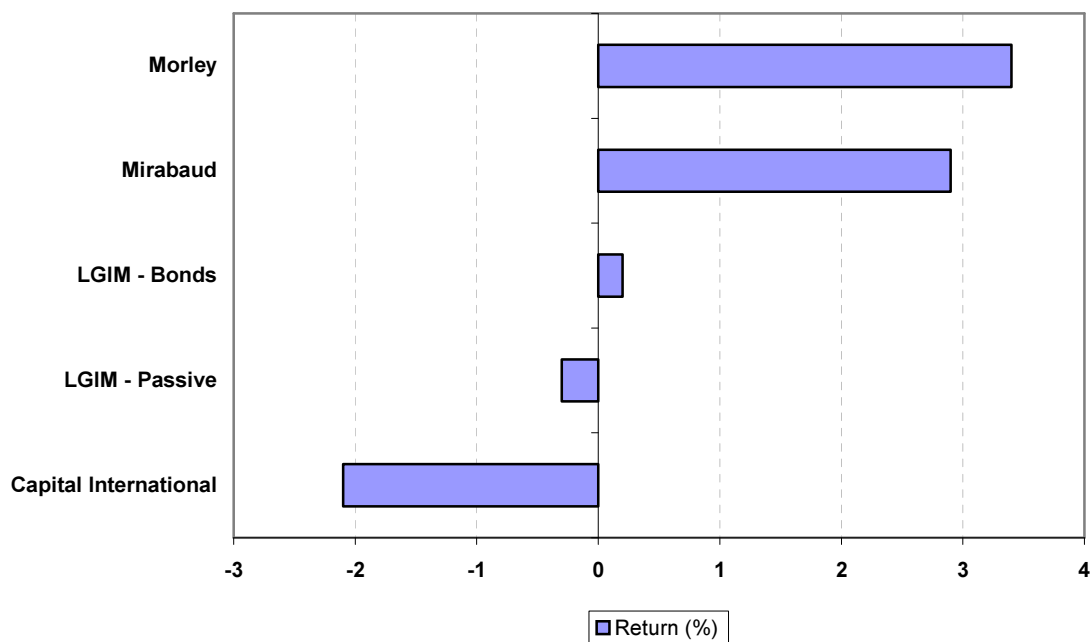
Graph 6 - Fund Managers' 3 Year Performance

Graph 6 shows the fund managers' gross actual performance over the previous three years. Morley, Mirabaud, LGIM – bonds, LGIM – passive and Capital International have been managing funds for 3 years.



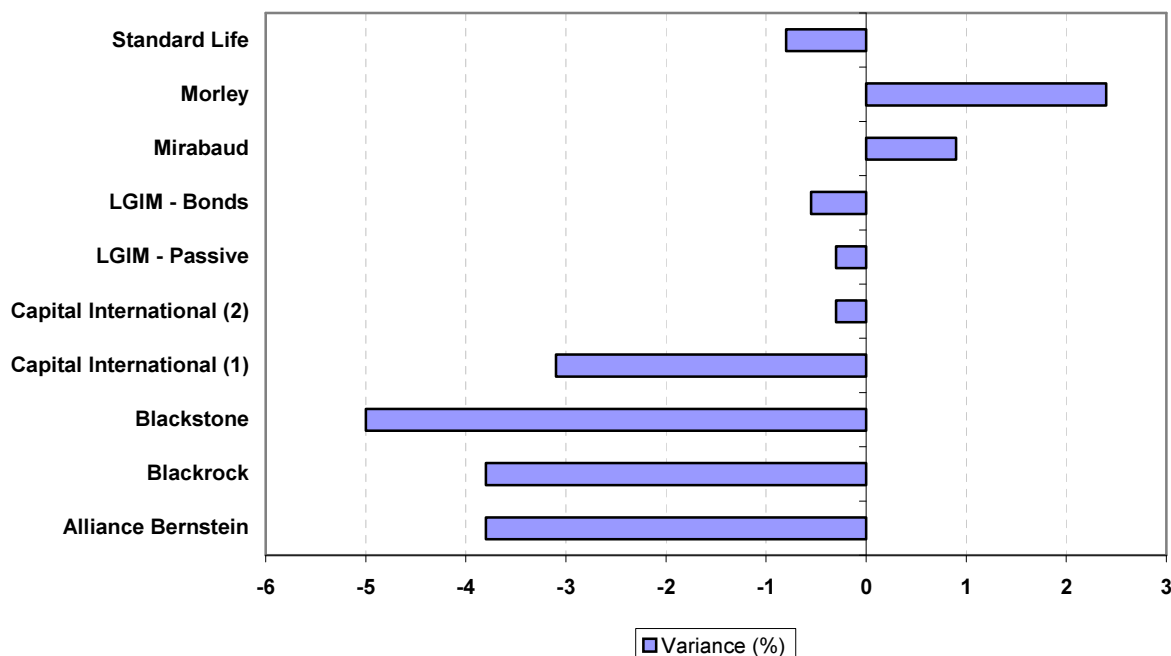
Graph 7 - Fund Managers' 3 Year Relative Return

Graph 7 shows the fund managers' gross performance over the previous three years against their benchmark, three years is a pension industry standard timescale for performance comparisons. Over the three years Morley has outperformed its benchmark of 11.2% by 3.4%, Mirabaud has outperformed its benchmark of 12.4% by 2.9%, LGIM – active bonds has outperformed its 4.9% benchmark by 0.2%, LGIM – passive has underperformed its benchmark of 10.7% by 0.3% and Capital International has underperformed its benchmark of 9.4% by 2.1%.



Graph 8 - Fund Managers' Performance Compared to Fund Manager Objectives

Graph 8 shows the fund managers' performance over the previous three years compared to their objectives. Morley and Mirabaud have achieved their objectives over the 3 years. No other fund managers have achieved their objectives as at 31 March 2008.



- (1) Relates to the out-performance objective (see fund manager objectives);
 (2) Relates to the limiting under-performance objective (see fund manager objectives).

Notes to Graph 8

- BlackRock and Blackstone performances are shown for one year, the mandates have only been in place since Quarter 4 2005 and 3 year performance data is not yet available. The fund manager objectives for Alliance Bernstein and Standard Life are compared against performance since inception in October 2005.

Fund Manager Objectives

The objectives for each fund manager are as follows:

- Alliance Bernstein: to achieve a return 3% per annum above the benchmark return over full market cycles, gross of fees.
- Blackrock: RPI +5% net of fees per annum.
- Blackstone: cash plus 5% over a full market cycle.
- Capital International: to out-perform its benchmark by 1% per annum over a three year rolling period and limit under-performance to 3.0% in any twelve month period.
- Legal and General Investment Management (LGIM) – Passive: to match its benchmark return.
- LGIM – active bonds: to out-perform its benchmark by 0.75% per annum over a three year rolling period.
- Mirabaud – UK Equities: to out-perform its benchmark by 2% per annum over a three year rolling period.
- Morley Fund Management – Property: to out-perform its benchmark by 1% per annum over a three year rolling period.
- Standard Life – UK Equities: to exceed the benchmark by 3% per annum gross of all investment management fees over rolling 3 year periods.

Quarter 1 2008 Fund Performance in the Local Authority League Tables

The Buckinghamshire Pension Fund was ranked in the 52nd percentile for the first quarter of 2008 in the WM local authority universe. In the year to 31 March 2008 the Fund was ranked 36th, over an average of 3 years to 31 March 2008 the Fund was ranked at 28th. The Fund's 5 year average is 23rd percentile, this is the first time that the Fund has been placed in the top quartile over 5 years. The quarterly and annual performance recorded each quarter can be volatile; the three years and five years percentiles demonstrate the improving trend in the Fund's performance. Table 5 below shows the trend in the Funds quarterly, annual, 3 year and 5 year performance each quarter since Q1 2006.

TABLE 5									
	2006				2007				2008
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Quarterly	35	57	51	26	48	63	25	23	52
Annual	21	18	30	41	55	61	40	30	36
Three Years	40	41	56	50	51	56	38	34	28
Five Years	81	84	66	77	81	63	30	38	23

C. Resource Implications

Not applicable.

D. Legal Implications

None.

E. Other implications / issues

The underlying performance issues will be addressed when the Fund's revised Investment Strategy is implemented over the following months.

F. Feedback from consultation and Local Member Views

Not applicable.

G. Communication Issues

A performance update is reported six monthly to the Pension Fund Consultative Group and annually to the Pension Fund's employers. Members are asked to consider whether to communicate the good news about the Fund's medium term performance to a wider audience.

H. Progress Monitoring

To be reviewed by Committee quarterly.

I. Background Papers

None.

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.



Report to Pension Fund Committee

Title: Training Plan 2008

Date: 29 May 2008

Author: Clive Palfreyman, Assistant Head of Finance

Contact Officer: Clive Palfreyman, Assistant Head of Finance

Electoral Divisions Affected: n/a

Portfolio Areas Affected: All

Summary

Outlined within the Pension Fund's approved Governance documentation is the requirement for Pension Fund Committee Members and key officers to undertake regular training. A detailed training needs analysis was undertaken during Spring 2007 and 2 training sessions held in Autumn 2007. This paper outlines plans for 2 training sessions in Autumn 2008 which all Pension Fund Committee Members are encouraged to attend.

Recommendation(s)

PFC Members are asked to AGREE the member training plan for 2008 and note the dates of the planned training sessions.

A. Main issues arising

The table below outlines the proposed training plan for 2008. This has been established following consideration of:

- The 2007 Training Plan
- The 2007 training Needs analysis
- Guidance published by the Pensions Regulator outlining required fields of knowledge.

It has been agreed previously that sessions should be held outside of the normal Committee meetings and sessions will be structured so that each training session is followed by a session with the Fund Manager hosting us for the day who will give a presentation on their own allocation portfolio performance.

This proposal should not be the exhaustive list of training for members during the year. Presentations will continue to be received at Committee meeting and Members are actively encouraged to attend other sessions. In order that all Members benefit from sessions attended, Members attending external sessions are requested to submit any documentation received to the Treasury Manager or the Assistant Head of Finance who will then arrange for

circulation. The Member attending such a session will also be requested to provide a short verbal update of the training at the next committee meeting.

Session 1

Date	10 October 2008
Location	Morley Fund Management London
Agenda: 10:00 – 12:30	<p>Pensions Law (Mercer)</p> <ul style="list-style-type: none"> • Background of the LGPS and the regulatory framework • The roles and responsibilities of Members including fiduciary duties, duties of care standards that must be complied with and protection • The role of the Investment Advisors, the Legal Advisors and the Administrator • The role of other bodies such as the external and internal auditors and the ombudsman • The roles and responsibilities of individual employers and the implications of an employer leaving the scheme • Links with State Pension Schemes
12:30 – 1:30	Lunch
1:30 – 2:30	Background to Portfolio and Performance (Morley) Property Asset Information Update (Morley)

Session 2

Date	12 November 2008
Location	Blackstone Management London
Agenda: 10:00 – 12:30	<p>Additional Voluntary Contributions (Prudential)</p> <ul style="list-style-type: none"> • What are AVCs • How AVCs are funded and their risks • Principles behind an appropriate AVC strategy • Administration of the AVC scheme • Committee responsibilities in this context.
12:30 – 1:30	Lunch
1:30 – 3:00	Background to Portfolio and Performance (Blackstone)

B. Other options available and their pros and cons

Other training options are available. The proposal submitted above was identified as a knowledge gap during the 2007 Member training needs assessment.

C. Resource Implications

These proposals are in draft pending Committee approval. A fee will be payable to the two training providers but the Fund Managers are likely to host us without charge.

D. Legal Implications

Effective training of Members will fulfill our governance responsibilities as outlined within the Governance Policy and guidance outlined by the Pensions Regulator.

E. Other implications / issues

None

F. Feedback from consultation and Local Member Views

Officers will liaise with the Pension Fund Committee Chairman during the development of more detailed plans.

G. Communication Issues

N/a

H. Progress Monitoring

Members attending each event will be asked to evaluate the effectiveness of the training.

I. Background Papers

May 2007 Pension Fund Committee – Training.

Agenda Item 11

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

Document is Restricted

Agenda Item 12

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

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