Buckinghamshire County Council

Minutes

PENSION FUND COMMITTEE

MINUTES OF THE MEETING OF THE PENSION FUND COMMITTEE HELD ON THURSDAY 11 SEPTEMBER 2008, IN MEZZANINE ROOM 2, COUNTY HALL, AYLESBURY, COMMENCING AT 9.30 AM AND CONCLUDING AT 10.50 AM.

MEMBERS PRESENT

Mr S Crooks, Mr F Downes (Chairman), Mr T Egleton, Mr P Hardy (Vice-Chairman), Mr C Jones, Mr D Meacock and Mr D Phillips

OFFICERS PRESENT

Julie Edwards, Treasury Manager (Finance)
Clare Gray, Senior Democratic Services Officer
Anwen Owens, Mercer Investment Consulting
Clive Palfreyman, Assistant Head of Finance (Corporate Financial Services)

AGENDA ITEM

1. APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies were received from Mr Q Ings-Chambers and Mr P Gerrella. Louis Hill from WM Performance Services was unable to attend the meeting.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The minutes of the meeting held on 29 May 2008 were confirmed (not 20 May as stated in the agenda).

A meeting had been held with Alliance Bernstein regarding currency management but no paperwork had yet been received. Currency management was a service provided to their clients. This issue should be discussed later in the year.

4. FUND MANAGERS PERFORMANCE

Members received the report of the Treasury Manager, the purpose of such was to present the performance of the Pension Fund's Managers for the second quarter of 2008 and the annual mini-valuation by the Actuary.

The Treasury Manager highlighted the following points:-

Fund Value and Asset Allocation

- The market value of the fund had decreased from £1,207m to £1,185m during the three months ending 30 June 2008;

Quarterly Performance to 30 June 2008

- The Combined Fund achieved a gross return of -2.1% compared to its benchmark return of -1.7%, an under performance of 0.4% for the quarter to 30 June 2008;
- For the quarter to 31 March 2008, LGIM – Alliance Bernstein, Blackstone, Pantheon (Europe), Pantheon (USA) and Standard Life out performed their benchmarks;

League Tables

- The Pension Fund was ranked in the 63rd percentile for the second quarter of 2008 in the WM local authority universe;

Annual Performance to 30 June 2008

- In the year to 30 June 2008 the Combined Fund achieved a gross return of -7.2% compared to its benchmark return of -7.0%, an under performance of 0.2%. Most mandates generated a negative return for the year reflecting the downturn in the equity and commercial property markets;
- Morley, Mirabaud, Pantheon and Alliance Bernstein have out performed their benchmarks. Standard Life, Capital International, Blackstone and BlackRock have under performed their benchmarks;

3 Year Performance to 30 June 2008

- The Fund achieved a return gross of fees of 7.2% per annum in the three years to 30 June 2008 out performing its benchmark by 0.3% for that period;

Actuarial Valuation Update

- The Fund's Actuary has estimated that the funding level as at 31 March 2008 is 80% and the equivalent average required employer contribution would be 18.9% of payroll. The funding level had dropped from the 81% reported during the full valuation dated 31 March 2007.

During discussion the following points were made:

- In reference to the actuarial valuation, Buckinghamshire had only dropped 1% due to market volatility, which was much better than other authorities, some of which had dropped 6-7%, however it was important not to be complacent;
- In answer to a question on asset liability modelling, members noted that the fund was broadly in line with long term expectations;
- With regard to a discussion on the investment in a mix of equities and bonds, a Member commented that the fund would not benefit from strategic reallocation on a dynamic basis. He referred to equities which had been sold in 2000 but brought back a high return on investment in 2003.

The Committee noted the report.

5. TRAINING ROUND UP

Training had been provided by Henderson's on constructive active engagement as an innovation to attract customers into the private equity market. The idea was to identify companies who had good potential, were mature, but were going downhill and had no real direction. These companies would be invested in on a 3/5/10 year basis and would be provided with management advice. There was a fund of £500million for conviction investment. Henderson's had informed attendees that eight companies had returned 100% profitability. After the 3/5/10 year term the companies would be disposal of; this was not asset stripping but realisation of potential. Henderson's were working in partnership with Price Waterhouse, who would provide financial, analytical and operational knowledge. A member confirmed that Price Waterhouse would not get involved in high risk areas and were supporting this initiative. Dramatic growth was shown particularly if money was invested long term.

A number of members had attended the Pantheon Symposium. They had given a presentation on investment into infrastructure with evidence of 70-80% return on investment. There were huge risks involved in this area. Particular reference was made to investing in electricity.

The Chairman and the Assistant Head of Finance had attended the LGC Summit, where particular reference was made of the current economic climate. Copies of the presentations given on the day are available on request. One piece of advice that had been given was to avoid investing in North America in the short term but to invest in Brazil, Russia, India and China (the 'bric'). Additionally, research had indicated that the average LGPS fund would need a return of 9% per annum to meet its long term liabilities.

Members discussed the following:-

- The importance given to ratings and past performance could be seen as a weakness; as good investment relied on future performance;
- A member referred to Aberdeen where the oil industry meant that the city had no depravation and no unemployment.
- Whether there would be a 1% drop in interest rates, as this would help stimulate the economy. Current predictions were that it was expected to drop, but that rates would rise in 12 months and would be even higher in three years;
- It was important that the Committee were positioned to take advantage of this knowledge and to maintain a good position with the Pension Fund;
- Whether to invest in corporate bonds - Over the past 10/20 years bonds had been as good an investment as equity. Ms A Owens reported that on past performance equities were riskier than bonds but over the longer term equities out performed them.

6. DATE OF NEXT MEETING

The next meeting of the Committee will be held on Thursday 23 October 2008.

7. 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)

8. CONFIDENTIAL MINUTES

The Confidential Minutes of the meeting held on 20 May 2008 were confirmed.

9. PENSION FUND ANNUAL PERFORMANCE 2007/08

This item was deferred to the next meeting as WM Performance Services were unable to attend.

10. ADVISER UPDATE

The Committee approved the appointment of the Pension Fund Committee Member Adviser.

CHAIRMAN