

**HERTFORDSHIRE COUNTY COUNCIL
RESOURCES, PROSPERITY, PARTNERSHIP AND
CONSULTATION SELECT COMMITTEE
15 MARCH 2001 AT 10.30 A.M.**

**Agenda Item
No.**

6

WORK OF INVESTMENT PANEL 2000/01

Report of the Finance Director

Author: Jill Laycock Tel. 01992 555388

Executive Member: Michael Janes

1. Purpose of the Report

To inform members of the activities of the Investment Panel during 2000/01.

2. Summary

The Investment Panel has a significant role to play in scrutinising the performance of the Pension Fund's Investment Managers, and the Fund's report and accounts, costs and voting policy.

In addition it has considered a wide range of pension-related issues in 2000/01, in particular the appointment of Standard Life as a second AVC provider.

1. Background

Prior to August 2000, the Investment Panel made recommendations to the Policy Committee which then passed any agreed resolutions.

Under the new constitutional arrangements, the Investment Panel is appointed by the Resources, Prosperity, Partnership and Consultation Select Committee to scrutinise the performance of the Pension Fund investments. The Cabinet or the Resources, Prosperity, Partnership and Consultation Select Committee may delegate specific projects to the Panel in connection with the investments of the Pension Fund, or the Panel members may bring forward matters for discussion.

The Panel makes recommendations to Cabinet/Executive Committee for their approval.

The Panel currently consists of eight County Council members and three District Council members nominated by the Hertfordshire Local Government Association. In addition, Unison has a non-voting member on the Panel.

The Panel held its first official meeting under the new arrangements on 30 November 2000 at which Bryan Hammond was elected Chairman.

The Panel meets quarterly in June, September, November and February/March.

2. Work of Panel 2000/01

2.1 Scrutiny of Fund Manager Performance

At each meeting the Panel received a summary report on the performance of each of the Fund Managers and on the Fund as a whole, in addition to detailed quarterly reports from each of the Fund Managers.

Representatives of two Fund Managers attended each Panel meeting to give a verbal report on their performance and on their outlook for investment returns, and to answer questions from Panel members. A schedule of the managers' attendance in 2000/01 is attached at Appendix A.

The Finance Director also reported any areas of concern arising from his quarterly meetings with each of the Managers.

2.2 Annual Report on Fund Performance from WM Company

WM Company are employed by the Pension Fund to provide a performance measurement service, and the Fund's performance is currently measured against the benchmark known as the "WM All-Funds". This is the average of all pension funds measured by WM.

Each year representatives of WM attend the May/June Panel meeting to report on the Fund's performance in the preceding calendar year.

2.3 Other Pension Fund Annual Reports

2.3.1 The Annual Report and Accounts 1999/00 were presented to the September 2000 Panel and were subsequently approved by the Cabinet/Executive Committee in September 2000.

2.3.2 A report analysing total costs of investment management in 1999/00 was presented to the November Panel meeting.

2.3.3 The September meeting received a report on the annual review of the voting policy and activities of the managers.

2.4 Risk Analysis

John Morrell Associates were appointed to provide an analysis of the style and level of risk in the Fund Managers' UK equity portfolios, initially over a historic five year period from September 1994, then on an ongoing quarterly basis.

They presented their initial results for Mercury and Schroders to the May 2000 Panel meeting.

David Morris of John Morrell Associates also attended an Investment Panel Workshop in October 2000, at which he gave an updated analysis for Baillie Gifford, Schroders and Jupiter. As a result, members requested that the Finance Director holds regular discussions with the managers on the risk levels in their portfolios.

2.5 Fund-specific Benchmark

Also at the October workshop, members had a presentation from George Henshilwood of Hymans Robertson followed by a discussion on the impact of moving from a "Peer group benchmark", i.e. one which is based on the average of a group of pension funds, to a "Fund-specific benchmark", i.e. one based on asset allocations across the different markets determined by the Panel members in consultation with Hymans.

Panel members requested further work on this to establish fully the potential impact on the Fund's investments of a move to a fund-specific benchmark.

This work is ongoing and will be reported to the June 2001 Panel meeting.

2.6 Equitable Life and AVC Providers

Since 1988, the Pension Fund has been required to offer scheme members an Additional Voluntary Contributions (AVCs) provider. Equitable Life has been the sole provider since that time. However, scheme members still had (and

continue to have) the option to invest in a free standing AVC, which they organise independently of the County Council. Investing in an AVC is a personal financial decision, for which the County Council does not have any liability.

During the year Panel members received a series of reports updating them on the developments with Equitable Life's court case and its subsequent attempt to find a buyer.

At its November meeting, prior to the announcement by Equitable Life that it would no longer accept any new business, the Panel agreed to look for at least one alternative AVC provider. A sub-group of three Panel members was appointed to manage the selection process.

With the sudden announcement of the closure of Equitable Life to new business on 8 December 2000, the appointment process became more urgent.

Members and officers worked together with Hymans Robertson to choose two alternative providers, Standard Life and Clerical Medial.

It was then announced that Halifax (which owns Clerical Medical) had offered to buy Equitable and Clerical Medial were withdrawing temporarily from discussions on new business. It now looks likely that the Halifax will take over a large part of Equitable's business and that those policies will be transferred to Clerical Medical, although there is still uncertainty around the with-profits policies.

The appointment of Standard Life as an alternative AVC provider was confirmed by Cabinet/Executive Committee on 12 February 2001 and work is now underway to notify existing and prospective AVC holders of this appointment.

2.8 Other Pensions Issues

During the year the Investment Panel also received background information on the following pension issues:-

- The admissions of contractors to the LGPS.
- The proposed merger of the London Stock Exchange and Deutsche Borse (which subsequently fell through).
- Stakeholder pensions – which Local Authorities are not currently allowed to offer.
- Pension sharing on divorce.
- Ill health retirements – the Governments consultative document.
- Management changes at Jupiter Asset Management.

Back ground information referred to by the Author:

Investment Panel Papers - 18 May 2000, 6 September 2000, 30 November 2000

Fund Managers Attendance at Panel Meetings 2000/01

<u>Panel Meeting Date</u>	<u>Fund Managers Attending</u>
18 May 2000	Schroder Investment Management
6 September 2000	Schroder Investment Management Jupiter Asset Management
30 November 2000	Baillie Gifford Capital International
15 February 2001	Jupiter Asset Management Schroder Investment Management