

**To: All Members of the
Investment Committee**

**From: COUNTY SECRETARY'S
DEPARTMENT**

Ask for: Adrian Service

Ext: 25564

Minicom: 6611

My Ref: AS/kp

Your Ref:

**INVESTMENT COMMITTEE
4 SEPTEMBER 2003**

MINUTES

ATTENDANCE

MEMBERS OF THE COMMITTEE

H G S Banks, N Brook, D Clayton, F Escott, P V Goggins, B N W Hammond, M Janes (Chairman), I H Laidlaw - Dickson, N Payne, S Quilty (substitute), R J Smith, S Taylor.

Officers in Attendance

C Sweeney - Finance Director
A Service - Committee Administrator
N Webb - Corporate Services

Also in Attendance as an Observer

S Thornley (Unison)

Upon consideration of the Agenda for the Investment Committee meeting on 4 September 2003 as circulated, copy annexed, action was taken or decisions were reached on individual items as recorded below:-

EXCLUSION OF PRESS AND PUBLIC

That under Section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting for items of business in 1. to 9. below on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 7 of Part I of Schedule 12 to the said Act.

1. SCHRODER INVESTMENT MANAGEMENT – STAFF CHANGES

Charles Crole advised of recent staff changes in particular Jill Thompson, who managed the Council's UK Equities portfolio account was now working for the Bank of Scotland. He stated that Christopher Metcalf, who chaired Schroder's core team of UK equity investment managers, which Jill Thompson used to be one of, had been chosen to head Hertfordshire County Council's account and had done so for the last month. Christopher Metcalf was introduced and spoke to the Committee.

Schroder's were of the opinion that this particular staff change would not change how the Council's account was managed.

Note : None of the representatives of Merrill Lynch or Baillie Gifford were present in the room whilst these staff changes were explained or discussed.

2. PENSION FUND - INVESTMENT MANAGER'S REPORT (MERRILL LYNCH) - PORTFOLIO FOR THE QUARTER ENDING 30 JUNE 2003

Rosemary Easton and Theresa Holland from Merrill Lynch attended the meeting and advised of the activities undertaken on behalf of the Pension Fund during the past quarter and informed of the Manager's expectations together with their anticipated policy for the future.

RESOLVED

That the report of Merrill Lynch be noted.

3. PENSION FUND - INVESTMENT MANAGER'S REPORT (BAILLIE GIFFORD) - PORTFOLIO FOR THE QUARTER ENDING 30 JUNE 2003

Lynn Dewar and Anthony Tait from Baillie Gifford attended the meeting and advised of the activities undertaken on behalf of the Pension Fund during the past quarter and informed of the Manager's expectations together with their anticipated policy for the future.

RESOLVED

That the report of Baillie Gifford be noted.

4. PENSION FUND - INVESTMENT MANAGER'S REPORT (CAPITAL INTERNATIONAL) FOR THE QUARTER ENDING 30 JUNE 2003**RESOLVED**

That the report of Capital International be noted.

5. PENSION FUND - INVESTMENT MANAGER'S REPORT (JUPITER ASSET MANAGEMENT) FOR THE QUARTER ENDING 30 JUNE 2003

RESOLVED

That the report of Jupiter Asset Management be noted.

6. PENSION FUND - INVESTMENT MANAGER'S REPORT (SCHRODER INVESTMENT MANAGEMENT) FOR THE QUARTER ENDING 30 JUNE 2003

RESOLVED

That the report of Schroder Investment Management be noted.

7. PENSION FUND - INVESTMENT MANAGER'S REPORT (JUPITER ASSET MANAGEMENT) (UK SPECIALIST PORTFOLIO) FOR THE QUARTER ENDING 30 JUNE 2003

RESOLVED

That the report of Jupiter Asset Management on the UK Specialist Portfolio be noted.

8. PENSION FUND - SUMMARY STATEMENT AS AT 30 JUNE 2003

A revised copy of page 3 correctly showing the percentage breakdown of Overseas Equities was circulated at the meeting.

The Finance Director advised of guidance received from the Audit Commission on monitoring the effectiveness of investment managers engaged and recording action taken when managers were not meeting the benchmark targets set for them over successive quarters of the year. He stated that whilst the Council continually monitored the performance of managers, drastic action would normally only be considered after three years, if managers performance was consistently bad during that period.

RESOLVED

That the report of the Finance Director summarising the investments held at 30 June 2003, which detailed the performance of the Investment Managers during the last financial quarter, year and three year period be noted. The Committee, in particular noted the action taken following Schroder's recent performance in not meeting their benchmark target during successive quarters, of removing from their portfolio North American equities.

9. MINUTES

The Minutes of the meeting of the Investment Committee held on 12 June 2003 were confirmed as an accurate record.

10. PENSION FUND – EMPLOYER CONTRIBUTION RATES

The Finance Director submitted a report giving details of the interim valuation of the Hertfordshire Pension Fund and as a result of the continuing reduced returns from stock market investments, the likelihood of the need to increase contributions for pensions from employers in future years.

In response to a question he stated that he would be meeting with the Hertfordshire District / Borough Councils Directors of Finances' this afternoon to acquaint them of the situation and encourage them to consider voluntarily increasing their Councils' contributions to the Pension Fund ahead of 2006.

RESOLVED

That all Employing Bodies engaged with the Hertfordshire Pension Fund be requested to seriously consider voluntarily increasing their contributions to the Fund ahead of 2006, in order that the Fund's deficit is reduced as soon as possible.

11. LOCAL GOVERNMENT PENSION SCHEME - STOCKTAKE REVIEW

The Finance Director submitted a report setting out the main proposals contained in discussion papers issued by the Office of the Deputy Prime Minister for changes to the Local Government Pension Scheme, which included the following:-

- i) make the retirement age 65 years old for all
- ii) increase the earliest age at which benefits may be paid, other than on ill health grounds from 50 to 55 years old
- iii) introduce measures to provide flexible retirement and incentives to retain scheme members in employment
- iv) evaluate the proposal that employee contribution rates be increased [the LGPC proposal is that this be increased from 6% to 7%]
- v) produce a reviewable Funding Strategy statement.

The Chairman in the interests of providing relevant information to assist discussion of these proposals at the meeting, invited the observer member of the Committee, in his role as the Unison Hertfordshire County Branch Secretary, Steve Thornley to comment on the proposals. The Unison Hertfordshire County Branch Secretary stated that Unison had concerns about these proposals and would express them at the appropriate time.

The Committee wondered if the proposal to make the retirement age 65 years old for everybody would lead to the maximum sum after 40 years of contributions being changed.

RESOLVED

That the Finance Director advise the Office of the Deputy Prime Minister that the Council supports the pension scheme changes detailed in i) to iv) above but does not feel there is a need to produce a reviewable Funding Strategy statement given the existence of Investment Principles Statement.

12. VOTING REVIEW

The Finance Director submitted a report outlining the voting by the Council's engaged Investment Managers, at large companies AGMs or EGMs, where the Hertfordshire Pension Fund had been invested, during the period June 2002 till June 2003. He stated that the Investment Managers had cause to vote 185 times where the Council's investment was concerned and had followed the advice given by NAPF (National Association of Pension Funds) on how to vote on 183 occasions. The two occasions both involving Jupiter Asset Management where they had not followed the voting advice given by the Council's engaged Consultants this was due to errors.

He stated that a review had also been undertaken of voting advice given by the NAPF (National Association of Pension Funds) services during the past year ending June 2003 which was considered satisfactory and consistent with the recommendations of the Cadbury and Greenbury reports.

RESOLVED

That the Committee notes that

- (a) the Hertfordshire Fund is following best practice as witnessed by compliance with the recommendations of the Committee of Inquiry into UK voting.
- (b) the Hertfordshire Fund Investment Managers had voted in accordance with NAPF guidelines during the period July 2002 till June 2003 in 183 out of 185 occasions.

13. PENSION FUND ANNUAL REPORT AND ACCOUNTS 2002 / 2003

The Finance Director outlined the procedure for putting forward the Pension Fund's Annual Report and Accounts for 2002 /2003 to external Auditors for approval prior to publishing the finalised Accounts and Report and circulating them to pension scheme members.

The Committee felt that the annual report should contain greater detail of the member training given and involved to equip members to undertake their pension fund monitoring role and the appointment of Mercers as the Council's Investment Consultants.

RESOLVED

- That (a) the draft unaudited Pension Fund and Accounts for 2002 /2003 be noted,
- (b) the Statement of Investment Principles as contained in the submitted report [pages 33 to 43] be approved.

Andrew Laycock
County Secretary