

**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
9 SEPTEMBER 2004**

MINUTES

ATTENDANCE

MEMBERS OF THE COMMITTEE

H G S Banks, D Beatty, D Clayton, G D Game, P V Goggins,
B N W Hammond (Vice Chairman), M H T Janes (Chairman), N Payne, R J Smith,
S Taylor.

Officers in Attendance

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

Upon consideration of the Agenda for the Investment Committee meeting on
9 September 2004 as circulated, copy annexed, action was taken or decisions were
reached on individual items as recorded below :-

APOLOGIES

Apologies for absence were submitted on behalf of N K Brook, I H Laidlaw – Dickson
and S J Pile.

MEMBERSHIP OF THE COMMITTEE

The Chairman for the meeting advised that D Beatty had been appointed to replace
N K Brook and G D Game had been appointed to replace S J Pile as Committee
Members for this meeting only.

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 8. 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. PENSION FUND - INVESTMENT MANAGER'S REPORT (BAILLIE GIFFORD) - PORTFOLIO FOR THE QUARTER ENDING 30 JUNE 2004

Tom Coutts 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.

2. PENSION FUND - INVESTMENT MANAGER'S REPORT (MERRILL LYNCH) - PORTFOLIO FOR THE QUARTER ENDING 30 JUNE 2004

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 (SCHRODER INVESTMENT MANAGEMENT) FOR THE QUARTER ENDING 30 JUNE 2004

RESOLVED

That the report of Schroder Investment Management be noted.

4. PENSION FUND - INVESTMENT MANAGER'S REPORT (CAPITAL INTERNATIONAL) FOR THE QUARTER ENDING 30 JUNE 2004

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 2004

RESOLVED

That the report of Jupiter Asset Management be noted.

6. PENSION FUND - INVESTMENT MANAGER'S REPORT (JUPITER ASSET MANAGEMENT) (UK SPECIALIST PORTFOLIO) FOR THE QUARTER ENDING 30 JUNE 2004

RESOLVED

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

7. PENSION FUND - SUMMARY STATEMENT AS AT 30 JUNE 2004

The Finance Director advised that analysing the recent performance of investment managers over one and three years, two managers, Baillie Gifford and Schroders had not met the benchmark targets. The Committee's response to this had been to partially re - organise the current Pension Fund.

He advised that when the new structure of specialist investment managers engaged by the Council commences, a number of changes maybe required. One particular change would involve the content of the quarterly summary reports starting with the report to the Investment Committee in March 2005. He stated that it was his intention in the next quarterly report to be made to the meeting in December 2004 to highlight the proposed changes to be introduced.

Another possible change would be the frequency that Investment Managers attended future meetings of the Committee given the increased number of managers engaged. All Investment managers engaged by the Council would still be required to submit quarterly performance reports and these would continue to be sent to Investment Committee members.

The Finance Director suggested that each manager should attend once each year unless special circumstances arose.

In response to a question, the Finance Director advised that the Council's Investment Consultant, Nick Sykes was advising on performance fees for managers which could be put forward to reward desirable performance.

RESOLVED

That the proposals for reporting and the report of the Finance Director summarising the investments held at 30 June 2004, which detailed the performance of the Investment Managers during the last financial quarter, year and three year period be noted.

8. PENSION FUND – INVESTMENT MANAGER STRUCTURE

The Committee Chairman advised of the deliberations of the sub – committee established to interview and recommend for appointment a second specialist Global Equities Fund Manager. He advised that the sub – committee had been specially impressed by the operational approach used by Alliance Bernstein and they had been appointed. Additionally a Transition Manager had been appointed to deal with the necessary changes.

RESOLVED

That the appointment of Alliance Bernstein Institutional Investment Management as the Council's second Global Equities Fund Manager be endorsed.

9. MINUTES

The Minutes of the meeting of the Investment Committee held on 24 June 2004 were confirmed as an accurate record.

10. PENSION FUND VOTING POLICY

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 2003 till June 2004. He stated that the Investment Managers had cause to vote 240 times where the Council's investment was concerned and had followed the advice given by NAPF (National Association of Pension Funds) or where contrary to that advice had received clearance from the Finance Director on how to vote on the majority of occasions. In all but one of the contrary voting occasions the manager concerned was Jupiter Asset Management and the Finance Director advised on the circumstances as known.

The Committee recalled that in previous years Jupiter had voted contrary to NAPF advice and had not obtained prior consent from the Finance Director to do so and expressed concern to this cavalier approach continuing in future years.

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 2004 which was considered satisfactory and consistent with the recommendations of the Cadbury and Greenbury reports.

RESOLVED

That the Committee

- (a) notes that the Hertfordshire Fund is following best practice as witnessed by compliance with the recommendations of the Committee of Inquiry into UK voting.
- (b) notes that the Hertfordshire Fund Investment Managers had voted in accordance with NAPF guidelines during the period July 2003 till June 2004 in the majority of the 240 occasions.
- (c) wishes its concern to be made known to Jupiter Asset Management over their voting at AGMs and EGMs in recent years where the Council's investments were concerned, contrary to the National Association of Pension Fund advice and with not seeking prior clearance from the Finance Director.

11. PENSION FUND ANNUAL REPORT AND ACCOUNTS 2003 / 2004

The Finance Director outlined the procedure for putting forward the Pension Fund's Annual Report and Accounts for 2003 / 2004 to external Auditors for approval prior to publishing the finalised Accounts and Report and circulating them to pension scheme members.

He stated as a consequence of the Accounts and Audit Regulations 2003, the County Council were required to approve its Annual Statement of Accounts for 2003 / 2004 which included the Pension Fund Accounts by 31 August 2004 and the Council's Accounts had been approved by the Casework, Appointments and Appeals Committee at its meeting on 17 August 2004.

The Committee felt that as trustees of the Pension Fund, the Accounts relating to the Pension Fund in future years should be considered by them prior to being formal approved by the County Council.

In response to the Committee's observation that only one of the Council's Investment Managers was still using soft commissions, the Finance Director advised that Jupiter was the Manager concerned and discussions were continuing to curtail Jupiter's use of soft commissions.

The Committee felt that the decision to change the Fund management structure from the use of balanced to specialist managers should be incorporated in the Council's Statement of Investment Principles.

RESOLVED

That (a) the unaudited Pension Fund and Accounts for 2003 / 2004 be noted,

- (b) subject to the content of the Statement of Investment Principles being amended to give details of the new management structure involving specialist managers only and requiring the curtailment of use of soft commissions, the Statement as contained in the submitted report [pages 34 to 45] be approved.

Andrew Laycock
County Secretary