The **PENSION FUND INVESTMENT BOARD** met at **WARWICK** on the **31st JULY, 2006**

Present:-

Councillor	Chris Davis (Chair)
“	George Atkinson
“	Bob Hicks
“	Helen McCarthy
“	Brian Moss

Fund External Advisor

Peter Jones

Officers

Resources Directorate

Dave Clarke
Oliver Winters
Phil Triggs
Matthew Dawson

Performance & Development Directorate

Tony Maione

Also Present:-

Jonathan Fish, Mercers

Fund Managers

MFS:
Richard Banks
Olivier LeBleu

UBS:
Trina Yates
James Anderson

1. General

(1) Apologies for absence

None.

(2) Members Declaration of Personal and Prejudicial Interests

Personal interests relating to any item on the agenda arising by virtue of the member serving as a District/Borough Councillor were declared as follows:-

(i) Councillor Chris Davis – Warwick District Council
(ii) Councillor Brian Moss – North Warwickshire Borough Council

In addition Councillors George Atkinson, Chris Davis and Helen McCarthy declared personal interests as members of the Fund.

(3) Minutes of the meeting held on the 22nd May 2006 and any matters arising.

(i) Minutes

Resolved:-

That the minutes of the Pension Fund Investment Board's 22nd May 2006 meeting be approved and be signed by the Chair.

(ii) Matters arising

None.

2. Asset Allocation

The report of the Strategic Director of Resources was considered.

Jonathan Fish of Mercer gave a presentation on alternative assets during which the following points were noted:-

(1) The average allocation of UK funds investing were 6.9%, 2.9% and 6.9% in respect of Hedge Funds, Private Equity and Property respectively.

(2) Allocations needed to be significant enough to provide the diversification that was being sought and therefore 1% or 2% might not be sufficient.

(3) The use of Fund of Funds would help to overcome some of the main constraints, namely – capacity constraints might not be such an issue, minimum investment levels should be lower, due diligence on each of the underlying hedge fund managers was carried out by specialist professionals, diversification of investment through multiple funds lowers the risk and exposure to closed strategies.

(4) There would be an additional level of fees – the normal management fee would be charged together with a performance related fee that could be as much as 25% of the over performance. This would mean that the Fund would still benefit by at least 75% of the over performance.

(5) An investment in January 1994 would by January 2006 have grown to the same level whether invested in World Equities or Diversified Hedge Funds, however, the pattern of growth would be steadier with diversified hedge fund.

(6) Investment in Conventional Property had performed well historically against gilts but although this better performance continued, the difference was reducing.

(7) There was a growing interest in investment in European Property.

(8) Manager selection would be crucial in ensuring the right managers were chosen.

(9) Before changing benchmarks it would be necessary to discuss any proposals with the Fund's Actuary to ensure that proposals were not likely to result in increased employers' contribution rates.

It was then Resolved:-

That the Warwickshire Pension Fund invest a minimum of 5% in each of the alternative asset classes (Hedge Funds and Property), making a 10% allocation in total.

3. Investment Performance

The report of the Strategic Director of Resources was noted.

Dave Clarke said that as requested the annualised return for fund managers to June 2006 had been included in the report [Figure 4]. He pointed out that this showed that except for UBS Global Equities the fund managers had outperformed the benchmark.

4. Any other items

None.

The Board adjourned from 11 a.m. to 11.10 a.m.

5. Item containing exempt information

There were no members of the public present

6. Presentation from Fund Managers

(1) MFS

Representatives of MFS were invited into the room to give a presentation to the Board during which the following points were made:-

(i) The MFS team concerned with the Fund had not changed and processes remained the same.

(ii) Continued to invest in companies with known earnings quality. The market had preferred other types of investment in the cyclical and emerging markets. However there was a rediscovery of risk underway and there were signs that those investing in the cyclical markets were beginning to consider whether their exposure there was too much. MFS were positioned well in the long term and should deliver good results.

(iii) There had been very little turnover in the portfolio.

(iv) On the question of corporate governance, the proxy guidelines were published on the website. MFS concentrated activities on behalf of clients rather than for the press.

The Chair then thanked the MFS representatives for their presentation, which had concluded at 11.50 a.m. The representatives then left the room.

(2) <u>UBS</u>

Representatives of UBS were then invited into the room to give a presentation to the Board during which the following points were made:-

(i) UBS philosophy was to assess the value of a company and would buy when it was clear that it was significantly undervalued and sell when significantly overvalued.

(ii) The markets had been acting irrationally but there were signs that this was beginning to turn and UBS strategy would benefit its clients.

(iii) UBS were cautious on materials. For example, there were signs of speculation in copper based on the growing Chinese market even though China was self-sufficient in the metal.

(iv) The Benchmark set originally was not believed to be too high and should normally be achievable.

The Chair then thanked the UBS representatives for their presentation.

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Chair of Board

The Panel rose at 12.40 p.m.