

AGENDA MANAGEMENT SHEET

Name of Committee Pension Fund Investment Board

Date of Committee 3 August 2007

Report Title Review of Performance and Decisions of Trustees and Advisors in 2006/07

Summary Report reviewing the procedures and decisions of trustees and advisors to the Warwickshire Pension Fund in 2006/07.

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Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers None

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members Cllr Davis - Chair of Pension Board
- Cabinet Member
- Chief Executive
- Legal Tony Maione
- Finance David Clarke, Strategic Director of Resources (reporting officer)
- Other Chief Officers
- District Councils
- Health Authority
- Police

Other Bodies/Individuals

FINAL DECISION Yes

SUGGESTED NEXT STEPS:

Details to be specified

Further consideration by this Committee

To Council

To Cabinet

To an O & S Committee

To an Area Committee

Further Consultation

Pension Fund Investment Board - 3 August 2007

**Review of Performance and Decisions of Trustees and
Advisors in 2006/07**

Report of the Strategic Director of Resources

Recommendation

That the Board consider the report and self-assess their own performance in 2006/07 according to the criteria laid out in Appendix A.

1. Introduction

- 1.1 Principle 8 of the CIPFA/Myners Principles recommends that Local Authority Pension Fund Board members should make formal assessments of their own procedures and decisions as trustees.
- 1.2 Principle 10 recommends that trustees should publish the results of the monitoring of advisors and managers.
- 1.3 To date, no formal assessment has been made of trustees or advisors. This report will assess the decisions made by trustees and advice provided by advisors during the 2006/07 financial year.
- 1.4 It should be noted that the monitoring of fund managers is achieved on a quarterly basis with a performance report put to the Board, setting out individual performances against benchmarks.

2. Trustee Performance

- 2.1 Trustees met officially (at Shire Hall) on six occasions during 2006/07. In addition, four other meetings were held at the offices of the Fund's investment managers in the City. These additional meetings were convened to interview fund managers on their performance as well as to take advantage of training sessions on fund managers' own territory.

Meeting of the Board on 22 May 2006

- 2.2 The Board considered the investment performance of the managers, having interviewed the fund managers (UBS and MFS) at the offices of Threadneedle Investments on 17 May 2006. The Board considered the business plan outcome for 2005/06 and noted the progress that had been made. The Board noted changes that had been made to the LGPS Regulations.

- 2.3 The Board received a presentation from the Fund's consultant at Mercer, Jonathan Fish, who outlined the options open to the Fund with regard to alternative investments. Such categories included hedge funds, private equity, property and commodities. The Board moved that proposals be brought to the next meeting on hedge fund and property investment.

Meeting of the Board on 31 July 2006

- 2.4 This quarter saw a meeting at Shire Hall only and the Board considered the investment performance of the managers and interviews took place with UBS and MFS. The Board considered the asset allocation report and decided to invest 5% of the fund in hedge funds and 5% in property, instructing officers to commence the tender process.

Meeting of the Board on 20 November 2006

- 2.5 The Board considered the investment performance of the managers, having interviewed the fund managers (Threadneedle SSGA) at the offices of UBS Global Asset Management on 16 November 2006. The Board considered a report on regulatory change, an actuarial report on the funding level, a report on the consultation document 'Where Next?' (options for the new look LGPS), a report on the charitable initiative 'Pennies from Heaven' and a report concerning the admission of Shipston Leisure as an admitted body to the Fund. The Board decided to keep one independent advisor, Peter Jones, and to monitor this periodically.

Meeting of the Board on 12 February 2007

- 2.6 The Board met for the interviews of prospective property managers. The Board appointed Threadneedle Investment Management and Schroder Investment Management.

Meeting of the Board on 13 February 2007

- 2.7 The Board met for the interviews of prospective hedge fund managers. The Board appointed Blackstone Group International.

Meeting of the Board on 19 February 2007

- 2.8 The Board considered the investment performance of the managers, having interviewed the fund managers (Threadneedle and MFS) at the offices of State Street on 15 February 2007. The Board considered a report concerning the Fund's asset allocation and approved a revised allocation, taking into account the move into property and hedge funds. The Board approved the seeking of quotes and appointment of a transition manager.
- 2.9 Board members are invited to conduct a self-assessment of their performance for the year, based on the matrix shown in Appendix A

3. Advisor Performance

3.1 Mercer Investment Consulting is employed as Investment Consultant to the Fund.

3.2 The Investment Consultant provides advice to the Fund but does not have any responsibility for decision making in any areas.

3.3 Mercer Investment Consulting is to be assessed on the following areas:

- a. assistance in helping the Authority formulate investment objectives;

Mercer provided invaluable advice in the formulation of the Fund's Statement of Investment Principles.

- b. advice on investment strategy;

Mercer provided consultancy advice to the Board in its investment strategy and the resultant diversification into alternative investments.

- c. advice on devising an appropriate investment manager structure;

Mercer advised on an appropriate manager structure for the diversified portfolio.

- d. assistance in selecting and monitoring of investment managers.

And assisted in the resultant tendering process in the selection of property and hedge fund managers.

4. Independent Advisor Performance

4.1 Peter Jones is retained as independent advisor to the Fund.

4.2 Peter attended all meetings of the Board in 2006/07 and attended the fund manager interviews on 12 and 13 February 2007.

4.3 Peter's personal contribution is valued extremely highly by the Board.

4.4 Peter is to be assessed on the following areas:

- a. assistance in helping the Board question fund managers on their performance;

- b. advice on Investment Strategy;

- c. assistance in selecting and monitoring of investment managers.

4.5 It is considered by offices that Peter performed to the highest standard in all these areas. The Board is invited to comment.

5. Recommendation

5.1 That the Board consider the report and self-assess their own performance in 2006/07 according to the criteria laid out in **Appendix A**.

DAVID CLARKE
Strategic Director of Resources
Shire Hall
Warwick
July 2007

Board Member Self Assessment

Criteria	Performance
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1. Effective decision making	
<p>Is the role of the Pension Fund Investment Board properly defined?</p>	
<p>Are appropriate issues brought to members for their consideration?</p>	
<p>Have decisions have been taken with the skills, information and resources necessary to make them effectively?</p>	
<p>Have Board members have received sufficient in-house staff support with regard to investment responsibilities?</p>	
<p>Have Board members have had effective training throughout the year?</p>	
<p>Have Board members approved a forward-looking business plan?</p>	
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2. Clear objectives	
<p>Have Board members had in mind an overall investment objective for the fund that will meet the funds liabilities, understood the process of contributions to be received from employers and employees, as well as taking account into account risk (the willingness to accept investment under-performance due to market conditions)?</p>	

Criteria**Performance**

3. Focus on asset allocation

Have Board members have paid attention to strategic asset allocation?

Have Board members considered the full range of investment opportunities, not excluding from consideration any major asset class, including private equity?

Have Board members decided on an asset allocation that reflects the fund's own characteristics?

4. Expert advice

Have Board members accepted expert advice for both actuarial services and investment advice?

5. Explicit mandates

Have Board members had regard to investment objectives, benchmarks and risk parameters with respect to individual managers?

Have Board members monitored the manager's approach in attempting to achieve their objectives?

Have Board members had regard to the timescales of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for under-performance alone.

Have Board members a full understanding of the transaction related costs incurred.

6. Activism

Have Board members taken an active interest in company engagement.

Have Board members ensured that managers have an explicit strategy in intervening in companies and are happy with the approach they will use in doing so; and will measure the effectiveness of this strategy.

Criteria**Performance**

7. Performance measurement

Have Board members met fund managers on a regular basis and interviewed and interrogated as appropriate.

Have Board members arranged for a formal assessment of the performance and decision-making delegated to advisers and managers.

8. Transparency

Have Board members approved a strong SIP, setting out who is taking which decisions and why this structure has been selected, the fund's investment objective, the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at, and the mandates given to all advisers and managers.
