

Aberdeen City Council

Aberdeen 05/06 March 2009

Minute of the Meeting of the Joint Investment Advisory Committee.

Present: Councillor J Kiddie, Councillor A Milne, Councillor Crockett, Councillor A Bews, Councillor S Coull, Councillor R Thomas, Mr G Morrice. Observer Mr R Duncan. In Attendance, Mr Gordon Edwards Corporate Director, Mrs J Hope, Pensions Manager, Mrs Laura Goodchild, Principle Accounting & Investment Officer, Miss C Mann, Pensions Officer, Eric Lambert WM Company

Cllr Kiddie acted as convener in the absence of Cllr Fletcher.

Cllr Kiddie opened the meeting by welcoming Mr Robert Duncan as an observer and advising the committee the Mr Duncan could be replacing Mr Morrice as the college's representative Mr Duncan introduced himself telling the committee that he is a governor at RGU and is a member of the Pension Fund through his time with First Group. Both Mr Duncan and Mr Morrice will attend the next JIAC meeting in May.

Apologies for Absence

1. Apologies for absence were intimated on behalf of Councillor N Fletcher, Councillor P Paul, Councillor M Watt, Councillor G McDonald, Mr Douglas Millican & Ms S Cooper for both days while Councillor Crockett & Eric Lambert intimated their apologies for the second day.

Minute of the Previous Meeting dated 27 Jan 2009

2. The Committee had before them and approved as a correct record, the Minute of the Joint Investment Advisory Committee of 27 Jan 2009.

Minute of the Special Pensions Panel Meeting dated 27 Jan 2009

3. The Committee noted the Minute of the Pensions Panel of 27 Jan 2009

Matters Arising

4. Concerns regarding Rogge had been raised at previous meetings; their performance has been poor relative to benchmark. Mercer as advisors to the Committee agreed with the concerns in respect of the manager however recommended that any review of the mandate should be incorporated in the next strategy review

It was agreed that the decision for further investment in Private Equity be held over until the managers had given their presentations.

The Committee resolved:

To recommend to the Pension Panel that Rogge's mandate is incorporated in the next strategic review.

LAPFF Bulletin

5. LAPFF Bulletin 7 & 8 was issued to all members of the committee.

Cllr Kiddie was concerned that Passive Managers were not engaging with companies with regards to ESG issues.

Mrs Hope advised that the nature of passive managers mandates were that they were very cheap having very low fees, they have to track an index so don't have any choice in what they invest in. If they had to engage with the vast numbers of companies in which they invest then costs would rise.

Cllr Coull pointed out that the committee had a fiduciary duty to make investments that gave the best returns.

Cllr Kiddie remarked that that there was a need for a balanced approach and if more emphasis had been placed on governance and ESG issues the markets may not have collapsed.

Mrs Hope advised that at the next Pension panel meeting one of the items of business is a proposal for extra funding for the LAPFF and an invitation to suggest work topics for group.

Verbal Update on Market Conditions

6. Mrs Hope highlighted the following issues:

- For the last 6 months the funds valuation has fluctuated around 1.5billion
- Private Equity - numbers from underlying companies are still due, these figures are usually 6/9months behind so the effects of the credit crunch have not yet shown.
- The funds investment in property should be 10% but presently is 6% due to falling property prices.
- Overall Fund performance had been below benchmark for the quarter due to the performance of both Baillie Gifford and Blackrock. Both of whom are growth managers and they have suffered in recent markets, between the two they invest 30% of the fund.
- The Funds cash holding has held up over the quarter.

Fund Manager Review

7. The committee decided that the Fund Managers should be asked about their views on Corporate strategy, Risk Management, Market Risk and Diversification in the current financial climate.

Any Other Competent Business

8. Cllr Crockett advised that the pension Fund had been audited by Aberdeen City Council Scrutiny Committee and the outcome was a glowing report.
Mrs Hope advised that the next JIAC meeting on the 22 May would include training regarding the next Fund Strategic review.

Investment Manager Presentation's

Baillie Gifford

Quarterly Return -11.7% against benchmark of -6.7%
Annual Return -28.3% against benchmark -24.4%

Baillie Gifford presentation covered; the extreme moves in markets and that they have moved to a more defensive position with the fund. Their investment strategy is to focus on the individual business's they invest in; their company's earnings, economic sensitivity and balance sheets.

The Convener thanked Baillie Gifford for their presentation.

The committee remain confident in the long term ability of Baillie Gifford to add value.

State Street

Quarterly Return -11.4% against benchmark of -11.5%
Annual Return -29.2% against benchmark -29.2%

State Street have continued to perform in line with benchmark as required of a passive manager.

The Convener thanked State Street for their presentation.

Cllr Milne intimated his apologies as he had to miss Blackrock's presentation.

Blackrock

Quarterly Return -10.9% against benchmark of -10.2%
Annual Return -29.3% against benchmark -29.9%

Blackrock gave an upbeat presentation, explained that being diversified has helped them hold up well through the amazingly volatile year and they had moved the portfolio into a more defensive position.

Blackrock put forward a proposal for the fund to invest in a new in house Pooled Vehicle. This new vehicle will be run by 4 managers with a portfolio of 30-40 stocks. They are looking to invest in companies that are in debt, refinance them which will give the fund exposure to the recovering share price. A letter giving more information will be sent to the Pension Fund at the beginning of next week.

Mrs Hope advised that under the terms of the current Blackrock mandate they are not allowed to invest in In-house Funds and that was why a letter was being issued.

Gordon Edwards asked about the risk

Blackrock advised that they will be investing in undervalued shares, midcap & FTSE companies. They will work on a company by company basis they feel it's the right time to buy

when prices are so low. They are confident that the markets will recover in 9/12 months and there is a potential for money to be made.

Cllr Kiddie asked about Risk Management including Corporate Governance

Blackrock advised that they are continually reviewing their own risk, and believe that Corporate Governance is more important than ever.

Cllr Thomas asked about Market Risk

The maximum holding they can hold in any one company is 10-11%. This protects the fund against a snap back.

The Convener thanked Blackrock for their presentation and advised that officers will respond to their request for investment in the in house pooled vehicle

Before the next presentation Eric Lambert advised the committee that he was being made redundant. He stated that he would like to continue as the Fund's independent advisor, whether that was through WM or independently.

Cllr Kiddie wished him well for the future and confirmed that the committee would consider his request.

Rogge

Quarterly Return 6.0% against benchmark of 6.5%

Annual Return 5.6% against benchmark 9.3%

Rogge admitted their performance had been poor and that they were looking to maintain and add value going forward.

The Convener thanked Rogge for their presentation but expressed the continued concerns of the committee regarding the investment performance of the portfolio.

Following the departure of Rogge, the committee expressed their disappointment in the quality of the presentation.

Aberdeen Asset Managers (Transport Fund)

Quarterly Return -5.2% against benchmark of -11.8%

Annual Return -14.1% against benchmark -18.7%

Aberdeen Asset Managers started their presentation by covering strategic developments at Aberdeen. They advised of a business and capital alliance with Mitsubishi UFJ Trust Banking Corporation. MUTB will promote Aberdeen products in the Japanese institutional marketplace. They also have purchased an asset management business from Credit Suisse.

The portfolio had a very good quarter most of this was from stock selection in Emerging Markets. The volatility creates opportunities to buy good companies at mis-priced levels and should generate returns over the medium to longer term as confidence is restored.

The Convener thanked Aberdeen Asset Managers for their presentation.

Barings

Quarterly Return 4.8% against benchmark of 6.5%
Annual Return 5.6% against benchmark 9.3%

Barings went through their performance; in the 4th quarter the portfolio suffered from the currency allocation to JPY, USD & EUR; the overweight position in Poland and Japan, Poland & US Bond Selection. .

The Convener thanked Barings for their presentation.

6th March

Business Matters in respect 5th March

Eric Lambert advisor status

Eric Lambert – Mrs Hope advised that Mr Lambert had yet to finalise his contractual arrangements the WM Company.

Cllr Kiddie advised that it was difficult to make a decision at this time due to the lack of information regarding Mr Lamberts future circumstances.

Cllr Coull expressed his concerns regarding Mr Lambert's access to research material if the Committee retained his services in an independent capacity. Mr Morrice agreed with him and expressed his further concerns regarding the overall WM service.

Mrs Hope advised that the performance figures that WM provide are available from our custodian.

Gordon Edwards stated that there were advantages and disadvantages in retaining Mr Lambert's services and that all the WM Co services should be reviewed when further information became available.

The committee then discussed Blackrocks proposal for an investment of £5m in their new Pooled fund which invests in distressed companies but with risk diversification across 30-40 stocks.

Gordon Edwards recommended that whilst he had confidence in Nick McLeod-Clarke's advice, the terms of the letter should be assessed before a final decision was made.

Cllr Thomas wished the committee to be aware that even for this relevantly small sum there was risk attached to this investment.

The Committee resolved:

To update the pension panel with regard to Mr Lambert's position, but to refer the decision regarding termination or retention of Mr Lambert's services, to the Panel subject to further information being made available.

To review the services of WM against the services that can be provided by the Fund custodian.

The committee agreed in principle to Blackrocks proposal subject to the terms of the letter, and for the final decision to be made by the Pension panel.

Aberdeen Property Investors

Quarterly Return -14.7% against benchmark of-13.5%

Annual Return -30.3% against benchmark -22.5%

They started the presentation by saying that the communication issue from the last meeting had they believed been resolved. They advised that the property market has come to a grinding halt, people were not selling and it is very challenging looking for good properties. The rents and are now falling and the pace of re-pricing continues at an unprecedented speed. They believe that 2009 will be another weak year for UK commercial property, and they expect returns to pick up strongly in 2010. They are looking to increase town centre retail exposure.

The Convener thanked Aberdeen Asset Managers for their presentation.

Following the presentation, the committee expressed its concerns regarding the downbeat presentation and they felt their questions were not fully answered. They also expressed their concerns that in the current climate the manager has not found any suitable property to purchase in the previous year.

SL Capital Partners

SL Capital Partners gave a brief overview of their structure and team experience. Deal activity has dramatically slowed down in 2008, it is important to add value and to help companies into profitability. They are mid way in getting the underlying valuations and are expecting a 30% downturn in the stocks due to the market decline

They then went onto discuss the new ESP 2008 fund which closes Jun 2009. It is a limited partnership fund of funds with option for funds only or a combination of funds and co-investment and will focus on European buy-outs. Everything is in place for this fund and with the recession it's a very good time to invest.

Mr Morrice asked about the likelihood of increased regulations and how that would affect them.

They don't know how that would affect them as presently any information on any new regulations has been very vague with nothing actually imposed. Their basic way of doing business will not change.

The Convener thanked SL Capital Partners for their presentation.

A discussion then followed about the proposal to make an investment in the ESP2008 Fund. Mrs Hope advised that if an additional investment was approved the fund would still be within its private equity allocation.

The Committee resolved:

To recommend to the Pension panel that 30 million Euros be invested in ESP2008.

Capital International

Quarterly Return -1.5% against benchmark of -3.1%

Annual Return -21.1% against benchmark -18.5%

Capital gave a very unimpressive presentation, they have underperformed in Q3 and they have repositioned the portfolio to a more defensive position and in Q4 they outperformed the market. They have picked up performance within the last 5 months achieving results slightly above benchmark.

Going forward Capital are confident that they will achieve good performance figures again.

The Convener thanked Capital International for their presentation.

Gordon Edwards intimated his apologies as he had to leave the meeting at this point.

HarbourVest

HarbourVest gave a very good presentation; they gave a brief overview of the company and its management approach. Their current strategy is: monitoring the underlying companies to make sure they maintain liquidity, cut expenses and monitor covenants and debt maturities. For new investments is vital so that they don't buy too early, pace has slowed dramatically and new transactions will be smaller.

HarbourVest had been asked to comment in their presentation on their range of private equity funds and as such advised, that they have a new Fund HIPEP VI whose principle focus is in European buyouts (small, medium & large) & Asia Pacific (buyout and venture).

Mr Morrice asked about Corporate Strategy and how their firm is responding to the credit crunch.

They have signed up to a new business plan which sets out a formula for the next generation of employees. They have not cut back on employees and in fact are finding it's an excellent time to add valued staff. They operate under a high level of regulations at present but are ready for any changes that may come into force.

Clr Kiddie asked which areas of the world were best to invest in.

Their view was that the greater growth potential is in emerging countries.

The Convener thanked HarbourVest for their presentation.

Mrs Hope advised that for the next JIAC meeting that cashflows in sterling going out 5 years for both Private Equity Managers would be provided.

Clr Kiddie brought the meeting to a close and thanked everyone for their participation and attendance.