

Aberdeen City Council

London 27/28 Aug 2009

Minute of the Meeting of the Joint Investment Advisory Committee.

Present: Councillor N Fletcher Convener, Councillor J Kiddie, Councillor A Milne, Councillor B Crockett, Councillor R Thomas, Councillor Bews, Mr R Duncan.
In Attendance, Mr G Edwards, Corporate Director, Ms S Cooper, City Chamberlain, Mrs J Hope, Pensions Manager, Mrs Laura Goodchild, Principal Investment Officer, Miss C Mann, Pensions Officer.

Cllr Fletcher opened the meeting by advising that Councillor Coull would no longer be representing Aberdeenshire Council on the JIAC and his replacement would be Councillor Rosemary Bruce. Mr Coull's enthusiastic contribution to the committee was duly noted and a formal letter will be sent to Councillor Coull signed by the Convener acknowledging the committee's appreciation for his service and to wish him well for the future.

1 Asset Liability Presentation

Joanne Holden from Mercer gave the presentation on Asset Liability concentrating on the following points.

- Principles for Investing
- Aim of Review
- Asset Liability Modelling
- Current Investment Strategy
- Impact of Changes to Investment Strategy
- Decision Making

A discussion then followed on the various points; the options that came out of the presentation were-

- Should the Asset Class Allocation be changed
- Did the Fund really require Two Bond Managers
- Was Alternative Assets an asset class the fund wanted to invest in.
- Property Allocation should that be in direct or indirect investment.

The Committee Resolved:

To keep the Funds Equity Allocation at 70%

That the Fund only required the services of one Bond Manager and that the full Bond Allocation should be placed with Barings a report on how this would be managed to be presented at the next JIAC meeting.

To freeze the current property portfolio investment at £100M and instruct the existing property portfolio manager to report to the next JIAC meeting on the composition of the existing direct property portfolio. To further seek a report from Mercers on indirect property investment.

For officers to discuss with Mercer the process for appointing an Alternative Asset Manager with an allocation of 7% of the Fund and report back to the next meeting of the JIAC.

Apologies for Absence

- 2 Apologies for absence were intimated on behalf of, Councillor G McDonald, Councillor P Paul, Councillor M Watt, Councillor R Bruce, & Mr D Millican.

Minute of the Previous Meeting dated 22 May 2009

- 3 The Committee had before them and approved as a correct record, the Minute of the Joint Investment Advisory Committee of the 22 May 2009.

Minute of the Pensions Panel Meeting's dated 18 Mar 09 & 07 May 09

- 4 The Committee noted the Minutes of the Pensions Panel of the 18 Mar and the 07 May 2009.

Investment Report to 30 Jun 09 - Report by the City Chamberlain

- 5 Ms Cooper highlighted the following issues:
 - Market Summary - returns on Equities and Bonds
 - Market Indices
 - Fund Performance
 - Investment Update

Cllr Fletcher asked that going forward the Total Investment since inception for each manager be included.

Matters Arising

- 6 Cllr Crockett advised that he had been asked by a pensioner if there was any need for monthly statements to be produced.
Mrs Hope advised that from 1 April 09 the monthly statements will be stopped.

Mrs Hope raised the subject of the Funds name, should it be changed from Aberdeen City Council Pension Fund to one that is more relevant to the area the pension fund covers. Grampian Pension Fund was put forward as a suggestion

The Committee Resolved:

To discuss the matter at the next meeting of the JIAC.

Investment Manager Presentation's

Baillie Gifford

Quarterly Return 7.9% against benchmark of 8.9%
Annual Return -20.6% against benchmark -16.5%

Baillie Gifford began the presentation by advising that they had a weak start to quarter 1 but recovered in quarter 2. The area's that contributed to return were where they had strength in emerging related companies, and cyclical stocks recovering after weakness in late 2008, the detractors were business's with relatively stable earnings. There have not been many changes in holdings since March, but bought into Amazon to take advantage of weaker prices which did prove a good move as they are now the second highest contributor to absolute performance. Going forward they are very confident in the companies ethos behind the process of their stock selection.

Cllr Kiddie asked about the governance risk in particular in the pharmaceuticals sector.

A lot of the emerging markets in the past were not open with corporate governance, now more are open to discussion. Baillie Gifford takes corporate governance very seriously and is one of the best fund managers in that arena.

Cllr Fletcher noted that they seemed cautious in their Chinese investments, were they looking to make further investments

China Mobile the biggest holding is a bit sluggish at the moment; they are looking at some financial stocks in India.

Mr Duncan inquired about the USA as 20% of the portfolio is invested in this market.

The US stocks are not US reliant they have global sales and are not dependant on a USA recovery.

Statestreet

Quarterly Return 11.1% against benchmark of 11.2%

Annual Return -20.00% against benchmark -19.8%

Statestreet have continued to perform in line with benchmark. They were one of the first companies to pass the stress test and have repaid TARP and stock warranty in full. They believe that the stock markets are not out of the woods yet and the recent signs of recovery may be short lived. They gave an ESG update which detailed a range of initiatives that were being rolled out and their voting record. They also left some papers on a new currency hedge product.

The committee were very impressed with the lay out of the ESG item in the presentation, and thought the Currency Hedge was worth looking into.

The Committee Resolved:

To instruct officers to report to the next meeting of the JIAC on the SSGA Currency Hedge product.

Blackrock

Quarterly Return 11.3% against benchmark of 10.9%

Annual Return -18.9% against benchmark -20.5%

Blackrock gave an update on their purchase of Barclays Global Investors which was approved by investors and the closing is expected at the end of this year. This acquisition is for growth reasons and the addition of passive management and risk analytics will greatly enrich the company's platform. These changes will have no negative impact on Nick and the team. They are ahead of target but are fully aware of the downturn in the markets, good calls over the period have helped them achieve the 6 monthly and 3 yearly target.

Gordon Edwards asked if they would still be investing in distressed stocks. No, the markets are really passed that stage now.

Cllr Kiddie asked if they would be investing more in renewable energy to ease the pressure on the planet.

Renewable energy will come back on the agenda when it can be produced in large enough quantities for a worldwide market.

Capital

Quarterly Return 5.9% against benchmark of 6.8%

Annual Return -14.1% against benchmark -12.5%

Capital's presentation covered the last 6 months, during which they are marginal ahead of benchmark, but the returns were not as high as expected due to sterling. They also missed out on the financials sectors rally in March as they are underweight in that sector. They have greatly increased the exposure to emerging markets to pick up on the good returns in that region. Capital believe they do better in falling markets so think they should do well in current markets.

Mr Duncan asked what relative return they expect over the next 10 years. Companies will have to behave differently in a recession which does sort the good from the bad, 10 years is too long a time to say but over the next 5 years they expect 5/10%.

Cllr Fletcher asked why they had bought into Chubb

The valuation of the business is low just now; it is also well run and is quite a safe holding.

Cllr Kiddie noted that Capital's reputation had been damaged over the last few years what they have done to change.

They had become to complacent but have simplified the way the business is worked, changed teams and researchers as an example of this the pharmaceutical team has been completely rebuilt and that work has improved results.

The committee felt that this was a very standard presentation.

28th August

Aberdeen Asset Managers (Transport Fund)

Quarterly Return 7.2% against benchmark of 7.6%

Annual Return -6.4% against benchmark -11.1%

Aberdeen Asset began the presentation by advising that the integration of the acquisition of business from Credit Suisse had been completed. They are slightly behind benchmark this quarter mainly due to UK gilts. All markets fell through the first quarter: Equities rallied from March but government bonds continued to struggle.

Cllr Kiddie pointed out that Venture the largest positive performance contributor has been bought by Centrica one of the worst. They think that Centrica will perform better once this buyout has been completed. The shares were undervalued and as one of the largest investors they felt that if they did not accept the offer (which was reasonable) the share price would fall.

Cllr Crockett asked if having such large holdings pose problems. The largest holding they have is with Nordea a Swedish Bank, who put in measures in the 90's which helped them come through the recent financial turmoil. Large stakes are a benefit rather than a liability as it gives more ability to influence the board.

Cllr Kiddie asked how seriously they take Governance. Very seriously, research on governance is a key area and if they are not satisfied with the results they won't buy the stock.

Mr Edwards asked would changes in company tax cause problems. Governments are very nervous about short circuiting the improvements in the market and corporate tax is a difficult thing to increase.

Spirit Capital Partners

They are an Independent Private Equity Manager and the company was formed one year ago. They invest in the UK lower mid-market sector, they look for robust and stable returns and focus on management buy-outs, business's demonstrating both growth and resilience and systematic value creation programme. Fund 1 which we have a £5m investment is giving a return of 1.9X Investment cost. Fund 2 in which the fund has a £10m investment is new fund which has yet to be drawn.

Cllr Fletcher raised the problem that fund's encounter in trying to fulfil its Private Equity Allocation. Some Funds over subscribe in order to hit allocation.

Mr Duncan asked when they expect to make exits. Market is not good for selling just now possibly looking at mid/end 2010.

The committee were very impressed with this presentation.

Private Equity

Laura Goodchild gave a presentation on all the Funds Private Equity Holdings. Details of each manager's fund, commitment, drawdowns and valuation were provided. The bulk of the funds investment are held with Harbourvest and Standard Life both of these companies have very focused management teams and are very highly rated in the market. Aberdeen Asset Managers Segregated Fund now bought out by Maven Capital Partners have a £5m investment. This fund should be being wound down by the managers; they did have a 5 year period to exit the companies this expires Oct 2010.

Cllr Fletcher requested a breakdown of the companies in the Maven Fund.

Cllr Fletcher requested that details of capital investment and returned cash should also be shown on future valuations.

Cllr Thomas wanted more information on Standard Life's writedown which seems to be out of line with the others.

The Committee Resolved:

That officers liaise with Maven to sell down the portfolio, and to give authority to obtain any specialised assistance required to bring the matter to a close.

Corporate Governance

Joanne Hope lead a discussion on Corporate Governance.

- Voting – Cllr Fletcher stated that Voting was vitally important to maintain good governance. Lots of critics have been saying that lack of voting has had a damaging effect on the way companies are run.
- LAPFF – Cllr Fletcher advised that Statestreet were targeted by them to improve governance, this has been very successful as proved by Statestreet's very good governance presentation.
- Remuneration – Cllr Thomas did not think that voting would really have any impact on remuneration; Cllr Fletcher advised that some companies are incorporating non financial incentives into remuneration.
- Myners Principles – Cllr Kiddie spoke about the importance of adhering to the Myners Principles.
- Ethical investments – Cllr Kiddie stated that Ethical Funds have an equal chance in performing as mainstream funds. Mr Duncan thought that the lines were blurred regarding moral issues and governance issues.

Cllr Fletcher informed the committee that he was very impressed with LAPFF and thought it was an excellent organisation for the Fund to be involved with.

The Committee Resolved:

That a draft Governance policy be presented at the next JIAC meeting.

Barings

Quarterly Return 1.6% against benchmark of 0.6%

Annual Return 10.3% against benchmark 9.7%

The portfolio has outperformed the benchmark over the 2nd quarter as well as for the year to date and over 1 and 3 years and since inception. The portfolio benefited from the currency allocation to EUR, USD & JPY, and the overweight bond positions in US & Poland. The areas that the portfolio suffered in were currency allocation to PLN, CAD, & NOK and the overweight position in Australia. They believe that further currency possibilities are to come and the election in Japan may cause further changes.

Cllr Thomas asked if the credit spreads were going to tighten even more. Depends on the market, potentially in the UK .

Mr Edwards wanted to know if the US federal deficit would have an impact They don't think it will, the US Government are very unlikely to try to reduce the deficit all at once, will be a slow thing so there would not be much impact.

Cllr Crockett asked after Japanese experience what about Quantified Easing. Optimistic about inflation burst, green energy will be a big thing but it does depend on the cost.

Cllr Fletcher asked why we should invest more money with them They are strong in all areas, duration, currency managers, look at all sectors and have good balance in tracking error. They also have very good research and have an excellent product.

Cllr Fletcher brought the meeting to a close.

Convenor Councillor Neil Fletcher