

Aberdeen City Council

Aberdeen 22 October 2009 Minute of the Meeting of the Joint Investment Advisory Committee.

Present: Councillor N Fletcher Convener, Councillor J Kiddie, Councillor Milne, Councillor R Bruce, Councillor R Thomas, Cllr M Watt, Councillor G McDonald. In Attendance, Mrs J Hope, Pensions Manager, Miss C Mann, Pensions Officer – Investments,

Cllr Fletcher opened the meeting by introducing Cllr Rosemary Bruce and welcoming her to the JIAC.

Apologies for Absence

1. Apologies for absence were intimated on behalf of, Cllr A Bews, Mr D Millican, Mr R Duncan, Cllr P Paul and Susan Cooper.

Up Date from Pensions Manager

2. Mrs Hope began the update by running through the agenda.

Agenda item 3 - Bfinance would present to the JIAC on the companies which had tendered for the Global Equity Ex UK mandate. From that presentation a long list of managers would be drawn up. Due diligence would then be carried by officers and the convener on the long list resulting in short list (beauty parade) to present to a future meeting of the JIAC. A date would require to be arranged for the final beauty parade.

Agenda item 4 - Aberdeen Property Investors had been asked to present an honest report on the properties within the portfolio, to enable the committee to decide if the £100m cap should remain and to convince the committee that the portfolio should remain with them. The committee gave Mrs Hope the authority to speak to another Scottish Local Authority regarding a possible legal challenge regarding a write off within the property portfolio.

Mrs Hope then went on to advise that the Market Value of the Fund has risen to 1750m

Mrs Hope updated the JIAC on the transfer of the bond assets from Rogge Global Partners to Barings Asset Management. At the JIAC meeting of 27/28 August it was recommended that the number of bond managers within the Fund be reduced from 2 to 1. It was further recommended that the assets of Rogge Global Partners be transferred to Barings Asset Management.

At the Pensions Panel meeting of 16 September 2009, the Panel accepted the recommendation of the JAIC and agreed a transfer date for the assets at 30 October 2009.

At this point Mrs Hope referred back Cllr Fletcher who referred to a slide (see attached) on Benefit Design Costing that had been used at a LGC conference. It showed that relatively minor changes to the scheme would make significant changes in the employer's contribution rates.

A discussion then followed regarding this slide the main points raised being.

- The great concerns about the affordability of the scheme going forward, employers are worried about the continual rise of contribution rates, some have stopped new employees joining the scheme and some are looking into how they could leave the scheme entirely.
- A Scottish political forum is required to discuss the pension scheme and possible changes, i.e. changing it to a 70th Final Salary scheme or to a 70th career average scheme (CARE). Councils across Scotland must be involved in the 3 yearly review of the scheme, as it is only the government that can make changes to the scheme.
- Cllr Fletcher has raised the issue of the pension scheme at every COSLA meeting and will continue to lobby hard in this regard.

Cllr Watt wanted it noted that he thinks the Pension Fund should be closed.

Cllr McDonald requested that officers supply figures that would show the effect on employers and employees if any of the suggested changes were to occur.

Cllr Fletcher asked that the slide be incorporated by the actuary at this years Pension Fund Forum, and for Mrs Hope to email all the Scottish Local Authority Pension Fund Managers asking for their chairman's details so that a letter can be issued to them highlighting the importance of working together so that council's views will be taken into account when the next review of the pension scheme begins.

The Committee resolved:

To change the date of the next JIAC from the 27th Nov to the 30TH Nov to allow time for the beauty parade to take place.

To give Mrs Hope the authority to speak to another Scottish Authority regarding property issues.

It was requested that Officers supply figures showing the outcome for the average employee if the Final salary scheme changed from a 60th to a 70th scheme, if it changed to a 70th career average scheme (CARE) & employer contribution rate if moved to a CARE scheme.

For Mrs Hope to contact all the Scottish Local Authority Pension Fund Managers asking for their chairman's details so that a letter can be issued.

Presentation from BFinance – Capitals Global Equities EX UK Mandate

3. Bfinance produced a report detailing the 91 Fund Managers that expressed an interest in the Global Equity Ex UK Mandate. They went through their selection process and the methods they used to arrive at a final short list.

The Committee resolved:

That Cllr Fletcher and Officers complete due diligence on 7 managers (JP Morgan, Neptune, Investec, Wellington, Fortis-Alfred Berg, Barings and PI Investment and for them to pick the best two or three who will join Capital International and Aberdeen Asset Managers at the beauty parade to be held on the 30th Nov.

At this point Cllr McDonald intimated his apologies and left the meeting.

Presentation from Aberdeen Property Investors

4. They began by apologising for the state of the presentation booklet, the printing had been out sourced and they had not seen the finished result prior to the meeting. The presentation began by them detailing the company's structure and giving a breakdown of the team that look after the Pension Fund portfolio. They went through the properties individually explaining the cost, lease hold, rental potential, possibilities of selling and the rationale behind the purchase. They compiled a traffic light system on each property in our portfolio.

- Red (5% of portfolio) – Poor properties should be sold
- Orange (19% of portfolio) – Not looking to hold properties long term
- Yellow (35% of portfolio) – Viable to hold meantime.
- Green (41% of portfolio) – Good quality properties

They acknowledge that there were some big negative numbers in the portfolio, and that the property market had seen a big fall generally, but by value they have the nucleus of a viable portfolio.

Cllr Fletcher asked why the book cost and the price paid differed.

- The book cost includes refurbishment costs and take on costs.

Cllr Fletcher asked about the Value of the Wood Street property.

- The Wood street property is the biggest loss in the portfolio the value is Zero as the debt is higher than the most recent valuation.

Cllr Watt noted that the rent return on Lodden Bus Centre looked good and queried the valuation figure given.

- The valuations are provided by an external source, there is a lack of finance available to enable the purchase of property.

Cllr Watt added that it was the lack of finance that had him doubting the valuations given.

Cllr Watt & Cllr Thomas queried the valuation on the Westgate property in Ipswich which had risen by £739,400 between 9th Sep and the 30th Sep.

- The date of acquisition was 9 Sep 09 but the actual deal was struck in May/June.

Cllr Kiddie stated that Sandy Thomson the Fund Director had inherited the portfolio, and that some of the properties looked to be pretty bad investments, so he was looking for some assurance that going forward they were confident things would turn round.

- The manager accepted that there were issues with some of the properties, but they have a strategy for each property, and the portfolio has a strong nucleus of good properties. They are now more selective in the properties that they purchase and sell.

Cllr Fletcher noticed that some of the lease expiry dates were historic and inquired if they were empty.

- No, tenants have stayed on after expiry date.

Cllr Kiddie asked if they had looked at property in the Aberdeen area.

- Yes, they have looked at 4 properties over the last quarter.

The Committee resolved:

To request a report giving a full analysis of the financial position of each property.

This report to be presented at the March JIAC meeting.

The Cap of £100m to remain until a review at the March JIAC meeting, although the manager was to be given discretion to bring forward investment opportunities in the interim.

Aberdeen Property Partners to report back at the March JIAC meeting.

Matters Arising

Cllr Fletcher gave his apologies as he is unable to attend the Aberdeen Pension Fund Forum on the 27th Nov as he is at a COSLA meeting. Cllr Kiddie will take his place.

Councillor N Fletcher - Convener