

Aberdeen City Council

Aberdeen 04/05 March 2010

Minute of the Meeting of the Joint Investment Advisory Committee.

Present: Councillor N Fletcher, (joined at Item 4), Councillor J Kiddie, Councillor A Milne, Councillor A Bews, Councillor R Thomas, Mr R Duncan (joined at Item 10. In Attendance, Susan Cooper, City Chamberlain, Mrs J Hope, Pensions Manager, Mrs Laura Goodchild, Principle Accounting & Investment Officer (left after Item 3)., Miss C Mann, Pensions Officer

1. Mercers Presentation – Joanne Holden

Ms Holden gave presentations on Alternatives, Career Average (Care) Scheme and Global Property, which highlighted the following issues. A discussion on these topics then followed.

Alternatives

- Active Currency Management – Fees, Manager Styles
- Diversified Fund Of Alternatives
- Diversified Alternatives Funds
- Multi-Strategy Funds
- Target Risk/Return Level
- Level of Correlation with Equity Markets
- Liquidity Considerations/Constraints

The Committee resolved:

To instruct Officers to prepare a paper on a Diversified Portfolio of Alternatives including Active Currency for the next JIAC meeting.

Global Property

- Options for Property Investment
- Property Investing – Mandate Types
- Listed property Investment
- Unlisted Property Investment Segregated/Pooled
- Property Derivatives
- European/Global Property Market

The Committee resolved:

To recommend to the Pension Panel

- To accept the recommendation of Mercers regarding the future structure of property management within the fund
- That the percentage split between UK & Overseas be decided at the next JIAC meeting.

At this point Mrs Hope left to join Cllr Fletcher at a meeting of the Conveners of Scottish Pension Funds.

2. Barings

Quarterly Return -0.6% against benchmark of -0.5%
Annual Return 5.2% against benchmark of 3.2%

Barings started the presentation by thanking the panel for the additional funds given to them at the end of Oct this was fully integrated with the original portfolio in December. The portfolio had performed in line with the benchmark over the 4th quarter and outperformed the benchmark over 1 and 3 years, and since inception. A discussion then followed on the portfolios positions and market outlook.

Cllr Crockett had tabled a question as to Barings view on the Crisis in Greece. The portfolio has a very small holding in Greece only 1.7% of the fund. They are confident in the current strategy in holding this but they are monitoring the situation very carefully.

3. Baillie Gifford

Quarterly Return 5.6% against benchmark of 4.4%
Annual Return 34.0% against benchmark of 25.3%

Before the presentation began Cllr Kiddie thanked Baillie Gifford for kindly hosting the meeting and for their dinner invitation.

Baillie Gifford advised that there had been very little change in the asset allocation over the last 6 months. Emerging markets have performed well and should continue to do so. They have also put more funds into renewable energy which has had a negative contribution on performance but is an area which they believe will perform in the long term.

Baillie Gifford put forward a proposition to move the portfolio to a pooled fund basis to allow the Fund access to new investment markets whilst reducing the administration burden for the Fund.

The presentation ended with an invitation to the committee to attend a 2 day training event Baillie Gifford are holding in Edinburgh on the 6/7 Oct 2010.

The Committee resolved:

To instruct officers to prepare a paper on the impact on the portfolio if it was changed to a pooled fund for the next JIAC meeting.

Cllr Fletcher and Mrs Hope rejoined the meeting at this point and advised that.

The first meeting of the Conveners of Scottish Pension Funds had been very worthwhile with all pension funds being represented. Cllr Fletcher was thanked for his work in getting this meeting arranged. The main topic of the meeting was Pathfinder which has reached stage 2 and the need for the pension funds views to be heard by COSLA. It was proposed that the Conveners meet on a quarterly basis ahead of COSLA meetings.

4. Apologies for Absence

Apologies for absence were intimated on behalf of Councillor B Crockett, Councillor R Bruce, Cllr M Watt, Councillor G McDonald, Councillor P Paul, & Mr Douglas Millican for both days while Mr R Duncan intimated his apologies for the first, and Councillor Fletcher, Susan Cooper & Mrs Laura Goodchild for the second day.

5. Minute of the previous meeting dated 30 Nov 2009

The Committee had before them and approved as a correct record, the Minute of the Joint Investment Advisory Committee of 30 Nov 2009.

6. Minute of the Pension panel meeting dated 16 Sep 2009

The Committee noted the Minutes of the Pensions Panel of the 16 Sep 2009.

The committee also thanked the Officers for making budget savings for the year 2010/11.

7. Quarterly Investment review – Mrs Hope

Mrs Hope highlighted the following issues

- UK level of Debt is high and is considered the G7 economy most at risk from a downgrade of its AAA credit rating, the next couple of years will be fiscally tough for the UK.
- The Pension Fund's total value has now risen to £1,834m which is the highest valuation ever achieved.

- Equity Managers Blackrock, SSGA and Baillie Gifford have all performed well. Barings are 2% ahead of their annual benchmark.
- The Fund had now committed it's maximum allocation to passive assets with the existing manager, further allocation of excess cash would be through Blackrock's passive funds.
- Segregated Private Equity Portfolio – the mandate terminates in Oct 2010 and still has a number of unrealised investments. Aberdeen Asset Managers have offered to buy the funds shares in Aberdeen Football Club.
- Transport Fund – discussions with First Group to be held regarding the liability profile of the Fund.
- CIPFA are setting up guidelines re training for Officers, Members and the Role of Convener.

The Committee resolved:

To recommend that any future excess cash be placed in Blackrock's passive funds.

To recommend that the Pensions Panel accept the offer for the shares from Aberdeen Asset Managers.

That for the next JIAC meeting officers provide a training and attendance record, and supply further information on the CIPFA recommendations.

Other business

A list of 6 options for the new pension fund name and logo were put forward to the committee.

The Committee resolved:

The committee decided on -
North East Scotland
PENSION FUND

8. Aberdeen Property Investors (API)

Quarterly Return 11.4% against benchmark of 9.4%
Annual Return 5.6% against benchmark of 5.6%

The UK Property market has shown signs of improvement in Dec 09 after the tremendous losses (45%) through Dec 08. API believe that a UK recovery is under way with a short-term opportunity to buy due to further yield shift. With institutions and banks looking to sell some good assets liquidity and choice will improve, that prospects for London offices are improving rapidly especially at

the prime end and due to a lack of development rental growth will grow. They are focusing on managing the portfolio and decreasing vacant units.

Cllr Kiddie asked about the performance of the pooled Property Fund
The pooled fund had included debt so had performed badly.

Cllr Fletcher extended his apologies and left the meeting at this point

9. Standard Life Private Equity

Standard Life started the presentation by advising that activity had fallen away massively since the credit crunch, although investment activity was showing signs of beginning to pick up albeit from a very low base.
Companies are restructuring and working on protecting/increasing earnings.

They then went onto discuss the next ESP2010 vehicle.

Cllr Thomas asked about increased political activity regarding private equity regulations.

Nothing has been finalised as to what the proposal will entail, there should be more clarity in 3-4 months.

10. Aberdeen Asset Managers New Global Equity Mandate and the Transport Fund

Transport Fund

Quarterly Return 2.6% against benchmark of 3.0%

Annual Return 19.5% against benchmark of 20.7%

They commenced the presentation by advising that they had gone through some staff changes but none of this would impact on performance. Equity's have delivered good returns apart from Japan and the domestic bond markets which were lacklustre. Index linked gilts outperformed conventional bonds and were a drag on performance.

Mr Duncan asked about their thoughts of investment in China.

They are cautious about investing in China due to underlying issues and only invest in Chinese companies listed in Hong Kong.

Mr Duncan asked if their mandate stopped them from buying Index Linked Bonds.

The Local Government Pension Scheme regulations only permit a certain percentage of the Fund to be invested in Pooled Funds and they have exercised that ceiling in other areas, so whilst they are not restricted from investing in this area they do not do so because of the pooled fund restriction as it would be the most effective tool for accessing index linked bonds for the fund

Global Equity Ex UK

Aberdeen started the presentation by thanking the committee for appointing them to the Global Equity Ex UK mandate. They then went on to discuss the ethos of the firm which relies on a true team approach which cultivates a culture of ideas and collective decision making. They have regular RSI meetings and are signatories to the United Nations Principles for Responsible Investment (UNPRI).

11. Black Rock

Quarterly Return 4.7% against benchmark of 5.5%
Annual Return 35.8% against benchmark of 30.1%

Blackrock gave an upbeat presentation covering Market background, Portfolio Strategy and the economic outlook for 2010. Although our mandate is for UK equity, 80% of the UK market is actually global.

Mr Duncan commented on the high proportion of oil companies in the fund. Yes 22% of the fund is held in oil companies as they believe that due to high consumption requirements especially in China that it's an attractive sector in which to invest.

12. HarbourVest

Harbourvest gave a brief overview of the company and its management approach, and then spoke about each of the Funds the Fund has commitments in.

Over all the positives are that decreased investment competition results in more favourable pricing, therefore it could be one of the best times for making new investments, concerns are the ability of firms to conserve capital and survive the economic downturn as their time to profitability lengthens.

Cllr Thomas asked when they thought the valuations would break even. They anticipate that would happen at the year end as they are well positioned with funds available to put to work in better conditions.

13. Pentech

Pentech, seeks to make seed and early-stage investments in promising technology companies. The investment focus is on UK and Irish software companies and they are lead or co- lead investor in all investments. A discussion then followed on the funds £1.5m investment.

Cllr Kiddie brought the meeting to an end and thanked everyone for the participation.