

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE
Thursday, 23 February 2012 at 7.00 pm

Present: Councillor Maslin (Vice-Chair)(In the Chair), Councillors Muldoon, Patisson and Wise

Apologies for absence were received from Councillors Allison, Best Fletcher and Whittle.

1. Minutes

RESOLVED that the Minutes of the meeting of the Pensions Investment Committee, held on 17 November 2011, be confirmed and signed.

2. Declaration of interests

Councillor Maslin declared that he is a Director of Hales Gallery Limited and UBS is an occasional customer of the Gallery. Since there were no decisions to be made regarding UBS that evening, Councillor Maslin did not need to leave the meeting at any point.

3. Harbourvest presentation

- 3.1 Kathleen Bacon and Hannah Tobin attended the meeting and made their presentation on behalf of HarbourVest.
- 3.2 Ms Bacon said that HarbourVest were a private equity specialist and she outlined the achievements of the company. Ms Tobin explained the investments that had been made over the last quarter and the strong return to the fund.
- 3.3 Ms Bacon referred to HVPE on page 23 of the presentation, she said that discount was at 46% to NAV and HarbourVest had considered how this could be closed down. As a result, a corporate officer had recently been appointed; he would be talking to shareholders, promoting the product and encouraging trading type of investors to buy the product. Ms Bacon said that HVPE was a great product but was suffering because of the discount. Councillor Muldoon asked what would happen if the discount gets worse. Ms Bacon said that there would only be a problem if net asset value continues to appreciate. She did not believe that the discount would get worse. She said that the information she had received was that the \$6.10 share price was going to increase. The challenge would be communicating this information and getting the message out to the market.
- 3.4 The Chair thanked Ms Bacon and Ms Tobin for their informative presentation and they left the meeting.

RESOLVED that the report be noted

4. Fauchier Presentation

- 4.1 Dan Higgins and Peter Vincent attended the meeting and made their presentation on behalf of Fauchier.

- 4.2 Mr Vincent said that it had been two years since they had made a presentation to this Committee. The markets had been eventful during this time. He reminded members why they had originally invested in this Hedge Fund .
- 4.3 Mr Vincent said that they had been a fund manager for Lewisham since 1 September 2008. They originally achieved first base and protected the capital. However, performance had fallen well short of the target.
- 4.4 Mr Vincent said that timing had played an important part in the performance of the portfolio because the account was agreed days before the Lehman crisis.
- 4.5 Mr Higgins said that the first two months performance of the portfolio was the worst in Fauchier's history. They agreed not to put the capital at risk to claw back this loss. Markets then stabilised and they had been treading water for the last eighteen months. He said that Fauchier could not justify this type of performance again and they believe that from that day things would be different and they could make a good return for Lewisham.
- 4.6 Mr Higgins referred to page 7 in the presentation which summarised why it had been difficult to make money in the markets over the last 18 months. When Fauchier recognised that they could be investing in a difficult environment they dispensed with the services of over diversified hedge fund managers.
- 4.7 Mr Higgins said that there is a school of thought that believes that Hedge Funds can only make money when markets are strong but that fees would be too high to make any real profit. He strongly disagreed with this.
- 4.8 Mr Higgins said that big money was made over the last 12-18 months with long Government bonds. He expected big returns on commodities and had just identified new funds all of which were expected to return 10-15% net return.
- 4.9 Mr Higgins said that there was still dispersion in the market. The difference between the top and bottom shares was huge and investors can take advantage of this situation.
- 4.10 Mr Higgins accepted that Fauchier did not let the over diversified hedge fund managers go quickly enough and this had had a significant affect on the portfolio. He said that Fauchier were now well placed with their staff to make successful investments. He said that as a hedge fund company, they were turnaround specialists and could add value to poorly managed high quality companies. They also intended to take advantage of the announcement this week that bank disposal programmes were now underway.
- 4.11 Mr Donaldson said that their presentation seemed to say that Fauchier were slow to react to a changing environment. Mr Higgins said that in 2010

they could have had more success; they did not take part in the credit market. Three managers were dismissed. There is not a change from mid 2010 that they have regretted. The market had been very difficult and a few good managers got things wrong and the decision taken to dismiss them had been slow because they were good managers. However, having made several good decisions since this time, Fauchier were ready to make money for Lewisham.

- 4.12 The Chair thanked Mr Higgins and Mr Vincent for attending the meeting and they left.

RESOLVED that the report be noted

5. Investment Performance Report for Quarter Ended 30 December 2011

- 5.1 Mr Donaldson said that during the last quarter equity and bonds had performed well. This was an unusual occurrence because one usually outperformed the other. The Chair referred to HarbourVest's performance. He said that the benchmark had not performed well to equities. Mr Donaldson said that this was probably because the inception dates were slightly different to other managers.
- 5.2 Councillor Muldoon said that it was unusual for bonds to outperform equities, he asked whether there was any data that disproved this . Mr Donaldson said that there was about 100 years worth of data proving that equities outdate bonds. He hoped that long term there would be better returns from equities.

RESOLVED that the report be noted

6. Exclusion of the press and public

RESOLVED that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to information) (Amendments) (England) Regulations 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

7. Minutes
8. Fauchier
9. Passive Manager Selection
10. Transition Manager Selection

The following is a summary of the items considered in the closed part of

the meeting.

7 Minutes

RESOLVED the Minutes of the meeting of the Pensions Investment Committee, held on 11 November 2011, which was not open to the press and public be confirmed and signed.

8 Fauchier

RESOLVED that the contract with Fauchier be terminated and officers submit a report to the next meeting of this Committee outlining options for the reinvestment of this 3% of the fund.

9. Passive Manager Selection

This report will be submitted to a future meeting of this Committee.

10. Transition Manager Selection

RESOLVED that the Northern Trust be appointed as transition manager for the purpose of restructuring the fund from active to passive fund management subject to a successful interview carried out by Hymans Robertson.

11. **Shareholder Voting Rights**

11.1 Members agreed that this was an item that was of public interest, and should, therefore, be discussed in public.

11.2 The Chair said that he had asked for this item to be included in this agenda because the issue of CEOs' pay and bonuses in banks and financial institutions and how it relates to corporate governance and responsibility, was the subject of huge public concern. Vince Cable, Secretary of State for Business, Innovation and skills had spoken in Westminster in January about the fact that shareholders should hold binding votes on executive pay and do their bit to ensure that there was transparency over pay deals.

11.3 The Chair recommended that a letter be written to all fund members asking what their view was on this subject and what actions they would be taking in the future. It should then be clear whether managers meet the expectations of this Committee and any manager could be invited to explain their views on this subject if required by members.

11.4 Mr Donaldson said that managers of a fund are obliged to act in the best interest of the shareholder but this can cause a conflict with ethical issues. He considered, therefore, that it would be a good decision to write to fund managers to ask them about their practises particularly with regard to ESG (Economic Social Governance). Councillor Wise agreed, she said that although this Committee may not have as much control as desired in the companies invested by this Council's Pension Fund, it was important that it

is made clear to fund managers that ethical issues investment is of importance to this Committee.

- 11.5 The Chair said that a draft letter could be sent to all members and members should send back any comments to officers, it could then be sent out to present and possible future fund managers.

RESOLVED that letters be sent out to all present and possible future fund managers as set out above.

The meeting ended at 8.55 p.m.

Chair