

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE
Thursday, 15 November 2012 at 7.00 pm

PRESENT: Councillor Whittle (Chair), Councillor Maslin (Vice-Chair),
Councillors Fletcher, Muldoon and Wise.

ALSO PRESENT: Lynn Coventry (WM Company); Scott Donaldson, Hymans Robertson
(Independent Investment Adviser to the Committee); Conrad Hall, Selwyn Thompson,
Shola Ojo, Paul Johnston (LB Lewisham)

Apologies for absence were received from Councillors Allison and Best.

1. Minutes

RESOLVED that the Minutes of the Pensions Investment Committee held on 13
June 2012 be confirmed and signed, subject to the following amendment:

Declarations of Interest for Councillor Fletcher read: "Councillor Fletcher declared
that her brother in law had recently been employed as a finance director for
Bryden International which is part of the Melrose Group."

2. Declarations of Interest

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. Annual Performance review 2011/12

3.1 Members received a presentation from Lynn Coventry, WM Company, on London
Borough of Lewisham Pension Fund performance over the financial year 2011/12.

3.2 The Chair said that it was positive that the Fund had outperformed average Local
Authority Pension Fund performance over the last financial year. He noted that
some authorities had considerably outperformed the three year benchmark and
asked what characteristics these Funds typically held that enabled this
outperformance. Ms Coventry said that internally managed funds had historically
performed well, and that funds that had maintained the same investment structure
over longer time periods had also performed well.

3.3 Members thanked Ms Coventry for her presentation.

4. Pension Fund Annual Report 2011 / 12

4.1 Mr Thompson introduced the report, noting that the Committee was being
recommended to approve the Annual Report.

4.2 Councillor Wise said that the training event for Members held in February 2012
had been very positive and asked that a similar session be arranged in the near
future.

4.3 Members discussed what this training session could involve, and discussed the following possibilities for session topics:

- Alternative investment opportunities, such as within infrastructure funds. Members noted that certain larger pension funds had invested in infrastructure and housing, such as the Greater Manchester Pension Fund, which had invested a small percentage of its Fund in a housing co-ownership scheme. Members also suggested that officers discuss with Fund Managers the possibility of ensuring greater investment within the Borough.
- Legal issues. Mr Donaldson noted that Members, by virtue of sitting on the Pensions Investment Committee, held a fiduciary duty to act in the best interests of the Fund, and it was important to ensure Members understood the obligations upon them as part of this duty.
- A visit be arranged for members of the committee to visit one of the Investment Managers, M & G.

4.4 Councillor Fletcher noted that the annual report referred to a significant funding gap of £234m. Mr Hall said that the next triennial valuation of the Pension Fund is due as at 31st March 2013. Therefore, by the start of the 2014 financial year, the Council would have the latest position with regards to its funding status. The valuation would be impacted by a number of factors including investment performance, changes in actuarial assumptions and the impact of significant redundancies from the Council in recent years. The Chair suggested that this issue should be re-examined by the Committee in due course.

RESOLVED that

- (i) the Annual Report be approved for publication.
- (ii) Officers confirm whether the Committee had made a previous decision to invest within the M&G Social Housing Fund.
- (ii) Officers, in collaboration with the Independent Investment Adviser, be asked to arrange a training session for Committee Members covering a range of investment issues for early 2013.

5. Adjustments to the Pension Fund Accounts 2011/12

5.1 Mr Thompson introduced the report, which identified two specific issues relating to the Pension Fund accounts and relate to the valuation method for private equity / venture capital asset classes.

5.2 The Chair asked officers to examine how other Local Authorities managed the timing issues referred to by Mr Thompson which gave rise to the need for subsequent adjustments to the Accounts.

RESOLVED that

- (i) the report be noted; and
- (ii) the practice amongst other Local Authorities in managing adjustments to the Pension Fund Accounts with regards to this particular asset class be examined.

6. Investment Performance for the quarter ended 30 September 2012

- 6.1 Mr Donaldson presented the report.
- 6.2 Councillor Maslin asked whether it was prudent, in view of the undervaluation of the Fund, to allow for greater Fund exposure to equities. Mr Donaldson said that equities were expected to perform better than many other asset classes in the long term, but that greater investment in equities would subject the Fund to greater volatility. He said that it was important that the Fund be adequately diversified to allow for mitigation of risk.
- 6.3 Members discussed possible rebalancing of the Fund. Mr Donaldson said that normal practice in this area among Local Authorities was to establish a rebalancing strategy which allowed for reasonable parameters around asset allocation. Mr Thompson added that the recent decision by the Committee to a more passive management approach represented a good opportunity for the Committee to look again at rebalancing. This would be in line with the Council's existing policy to re-balance the Fund every three years. The Fund was last re-balanced in March 2010 and there is next due to be rebalanced in 2013.
- 6.4 The Chair said that asset allocation should also form part of the training session agreed by Members in Item 4.

RESOLVED that the report be noted.

7. Exclusion of 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 paragraph 3 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 outweighed the public interest in disclosing the information:

- 8. Closed Minutes
- 9. Decision on Hedge Fund mandate
- 10. Update – Pension Fund transition

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

8. Closed Minutes

RESOLVED that the Minutes of the meeting held on 13 June 2012, which was not open to the press and public, be confirmed and signed.

9. Decision on Hedge Fund mandate following the termination of the Fauchier Partners Jubilee Fund

RESOLVED that:

- (i) option 4 as set out within paragraphs 5.12 – 5.14 of the report be approved;
- (ii) authority be delegated to the Executive Director for Resources and Regeneration to select a suitable investment manager (or managers) with which to invest the funds consistent with the report;
- (iii) authority be delegated to the Executive Director for Resources and Regeneration to convert equity and other assets to cash as may from time to time be required to meet the cash-flow requirements of the Fund, subject to a limit, as set out in the report, on any such transaction and subject to all such decisions being reported to the next available meeting of the Pensions Investment Committee.

10. Update - Pension Fund Transition

RESOLVED that the report and the progress being made on transition be noted.

The meeting ended at 8.30pm.

Chair