



AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: MONDAY, 2 SEPTEMBER 2013 at 7.00 pm

**Civic Suite, Catford Road
London SE6 4RU**

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COUNCILLORS

Councillor Dan Whittle (Chair)
Councillor Paul Maslin (Vice-Chair)
Councillor Chris Best
Councillor Julia Fletcher
Councillor Mark Ingleby
Councillor John Muldoon
Councillor Philip Peake
Councillor Eva Stamirowski

Observers

Mrs Humble
Mr Whittet (UNISON)
Scott Donaldson (Hymans Robertson)

Officers

Janet Senior - Executive Director for
Resources and Regeneration
Selwyn Thompson – Group Manager,
Budget Strategy
Shola Ojo – Principal Accountant, Budget
Strategy
Carol Eldridge – Group Manager, Pensions
and Payroll
Conrad Hall – Head of Business
Management and Service Support

Members are summoned to attend this meeting

**Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU**



INVESTOR IN PEOPLE

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

ORDER OF BUSINESS – PART 1 AGENDA

Item No		Page No.s
1.	<p>Minutes</p> <p>RECOMMENDATION that the Minutes of the meeting of the Committee, held on 12 June 2013 be confirmed and signed.</p>	1 - 5
2.	<p>Declarations of Interest</p>	6 - 8
3.	<p>Presentation from HarbourVest</p> <p>Paper copies of the presentation will be available at the meeting.</p>	
4.	<p>Presentation from The W.M. Company / State Street</p>	9 - 30
5.	<p>Investment Performance for Quarter Ended 30th June 2013</p> <p>RECOMMENDATION The Committee is recommended to note the contents of the report.</p>	31 - 47
6.	<p>Update on Local Government Pension Scheme reform</p> <p>RECOMMENDATION Members of the Pensions Investment Committee are recommended to note the contents of the report and offer any views which could be incorporated into the consultation process.</p>	48 - 51



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Agenda Item 1

PENSIONS INVESTMENT COMMITTEE		
Report Title	MINUTES	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 2 September 2013

Recommendation

That the Minutes of the meeting of the Committee, held on 12 June 2013 be confirmed and signed.

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Wednesday, 12 June 2013 at 7.00 pm

PRESENT: Councillors Dan Whittle (Chair), Paul Maslin (Vice-Chair), Julia Fletcher, John Muldoon, Mark Ingleby, Philip Peake and Eva Stamirowski and

APOLOGIES: Councillors Chris Best

ALSO PRESENT: Scott Donaldson (Financial Advisor to Pensions Investment Committee) (Hymans Robertson), Conrad Hall (Head of Business Management and Service Support), Selwyn Thompson (Group Finance Manager, Budget Strategy), Helen Glass (Principal Lawyer), Shola Ojo (Principal Accountant, Budget Strategy), Daisy Cairns (LCPCG Coordinator / Committee Officer), Geoff Nathan (Valuation lead) (Hymans Robertson), David Veal (Client Director) (Investec), Bradley George (Head of Commodities and Resources) (Investec), Stephen Lee (Sales Director) (Investec), Christopher Down (Chief Executive and Founder) (Hearthstone Investments), David Gibbins (Fund Manager and Property Director) (Hearthstone Investments) and Adrian Gaspar (Technical Sales Manager) (Hearthstone Investments)

1. Appointment of Chair and Vice Chair

RESOLVED that Councillor Whittle be appointed Chair and Councillor Maslin be appointed Vice Chair of the Pensions Investment Committee for the municipal year 2013/14

Cllr Whittle welcomed new members of the committee, Cllr Ingleby, Cllr Stamirowski and Cllr Peake.

2. Minutes

RESOLVED that the Minutes of the meeting of the Pensions Investment Committee, held on 21 February 2013, be confirmed and signed.

3. Declaration of interests

There were no declarations of interest received from Members.

4. Terms of Reference

RESOLVED that the terms of reference of the Pensions Investment Committee be noted.

5. **Presentation by Investec**

The Committee received a presentation from Bradley George and Stephen Lee, of commodities fund Investec Asset Management, to supplement their report (hard copy filed with minutes).

After the presentation, Members questioned the representatives on various areas including: political risks associated with Palladium, proportion of investment in agriculture, risks associated with the mining sector, nuclear power and sustainability of other energy sources. Bradley George offered to share a white paper on viability of Shale Oil with Cllr Maslin.

Investec explained that they are in discussion with LBL officers and have proposed a review of their fees, which will be in the favour of the Pension Fund. This proposal is to both lower the base fee and to introduce a performance hurdle of 3%, below which performance fees will not be payable.

On behalf of the Committee, the Chair thanked Investec for their presentation and the representatives left the meeting.

Chair asked the fund's advisor Scott Donaldson of Hymans Robertson to produce a short report on fees for comparable funds for the next meeting.

RESOLVED that the report be noted by Members.

6. **Update on affordable housing options**

Selwyn Thompson, of LB Lewisham, spoke to Members about the report. In summary, none of the various options looked at since November 2011 have been found to be suitable investments for the Pension Fund at this time.

RESOLVED that the previously agreed decision to use up to 1% of the Pension Fund to acquire an appropriate affordable housing investment solution should be maintained, but for officers to look again in a year's time at what options exist then.

7. **Presentation by Hearthstone**

Christopher Down CEO of Hearthstone Investments attended the meeting with colleagues David Gibbins and Adrian Gaspar to present to Members.

Hearthstone Investments PLC are an investment fund who focus on the residential private rented sector. Mr Down stated that property is a low volatility investment area and is useful if blending with other more volatile assets. Hearthstone is the only specialist UK residential property fund manager and has a nationally diversified stock. They are the only FCA (Financial Conduct Authority) regulated UK residential property fund with PAIF (Property Authorised Investment Funds) status.

In response to a question from Cllr Muldoon, Mr Down explained that Hearthstone itself is not FCA regulated, but is an appointed representative to Thesis Asset

Management which is an FCA authorised “Outsourced Authorised Corporate Director”, although Hearthstone do aim to have their own FCA authorisation within a 1-2 year period.

In response to other questions from Members, Mr Down and Mr Gibbens explained that Hearthstone

- attempt to balance their investments geographically across the UK and would not invest in an particular area as a result of a local authority investment.
- do not currently get involved in shared ownership properties.
- purchase properties in the 2nd and 3rd quartile of the market, which outside of London is mostly family houses.
- do not envisage stock deliberately being let to social housing tenants or Housing Benefit recipients.

Scott Donaldson (Advisor to the Fund) asked about lease terms on residential vs commercial rented properties and risks associated with void periods and wear/dilapidation. Mr Gibbens responded that they manage to minimise this in conjunction with Property Management company, Touchstone, who have a let ratio of 96% which gives an inherent void period of 2 weeks per year.

Before they left, the Chair thanked the guests for their presentation and the question and answer session. The committee then discussed the presentation with Mr Donaldson including the long term prospects for the housing market, regulation, retail investments in the fund, year long leases, and the relative size and youth of the fund. They also noted that Hearthstone would not fit with the standing decision to invest in affordable housing. Mr Donaldson reminded them that the pension fund is looking for long term secure inflation linked income streams.

RESOLVED that the presentation be noted but that the committee will not be investing in Hearthstone at this time.

8. Introduction to Actuarial Valuation

Geoff Nathan from Hymans Robertson gave a presentation to the Committee explaining the work being undertaken on the tri-annual Actuarial Valuation of the assets and particularly of liabilities to the Pension Fund. This will be based on the membership of the fund on 31st March 2013 and a full presentation on the results will come to the Committee late this year. A hard copy of the presentation is filed with the minutes.

Mr Nathan went through the presentation and gave background information to the Committee on what areas will be covered in the Valuation.

Overall deficits are expected to go up, and employer contribution rates are also expected to rise. The potential for decreased employer contribution rates was discussed, in the context of further cuts to local authority expenditure and subsequent political and financial pressures. It was noted that the forecasts and modelling are based on a smoothing of changes across times of growth and decrease and if any significant changes were to be considered then advisors would recommend re-modelling. Conrad Hall of LB Lewisham explained that

ultimately the Chief Financial Officer has power and responsibility to override any decisions if they are seen to be rash and not in the interests of fund members.

Life expectancy continues to rise, but it appears that the rate of increase has peaked. Cllr Fletcher asked if geographical variation in life expectancy following the previous day's announcements from Public Health England. Geoff noted that a mortality investigation is being done for this particular fund, based on location, salary, etc and this will feed into the valuation.

Members thanked Mr Robertson for his presentation.

RESOLVED that the report be noted.

9. Investment Performance for Quarter ended 31 March 2013

At 9.25pm Cllr Muldoon proposed that the meeting should continue past 9.30 until the end of the agenda, this was agreed by all members.

Scott Donaldson, Professional Financial Advisor to the Pensions Fund, gave Members a brief overview of the Quarterly report.

Chair referred to the recent Members' visit to M&G fund managers, and asked for visits to other managers to be arranged over the coming year.

RESOLVED that the quarterly performance report be noted.

10. Draft Pension Fund Accounts

Selwyn Thompson gave an overview of the Draft Accounts for the Pensions Investment Fund to the end of March 2013. Particular points which were brought to the attention of members were:

- that the fund is still cash limited, meaning it is paying out more in benefit than is received in contributions
- overall the value of investments has risen by around £90 million
- Appendix One gives details of the draft accounts
- the final version of the Accounts will come back to this Committee as part of the Annual report in September

RESOLVED that the Committee notes the contents of the report.

The meeting ended at 9.35 pm

Chair:

Date:

Agenda Item 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 2 September 2013

Declaration of interests

Members are asked to declare any personal interest they have in any item on the agenda.

Personal interests

There are two types of personal interest :-

- (a) an interest which you must enter in the Register of Members' Interests*
- (b) an interest where the wellbeing or financial position of you, (or a "relevant person") is likely to be affected by a matter more than it would affect the majority of in habitants of the ward or electoral division affected by the decision.

*Full details of registerable interests appear on the Council's website.

("Relevant" person includes you, a member of your family, a close associate, and their employer, a firm in which they are a partner, a company where they are a director, any body in which they have securities with a nominal value of £25,000 and (i) any body of which they are a member, or in a position of general control or management to which they were appointed or nominated by the Council, and (ii) any body exercising functions of a public nature, or directed to charitable purposes or one of whose principal purpose includes the influence of public opinion or policy, including any trade union or political party) where they hold a position of general management or control,

If you have a personal interest you must declare the nature and extent of it before the matter is discussed or as soon as it becomes apparent, except in limited circumstances. Even if the interest is in the Register of Interests, you must declare it in meetings where matters relating to it are under discussion, unless an exemption applies.

Exemptions to the need to declare personal interest to the meeting

You do not need to declare a personal interest where it arises solely from membership of, or position of control or management on:

- (a) any other body to which your were appointed or nominated by the Council
- (b) any other body exercising functions of a public nature.

In these exceptional cases, unless your interest is also prejudicial, you only need to declare your interest if and when you speak on the matter .

Sensitive information

If the entry of a personal interest in the Register of Interests would lead to the disclosure of information whose availability for inspection creates or is likely to create a serious risk of violence to you or a person living with you, the interest need not be entered in the Register of Interests, provided the Monitoring Officer accepts that the information is sensitive. Where this is the case, if such an interest arises at a meeting, it must be declared but you need not disclose the sensitive information.

Prejudicial interests

Your personal interest will also be prejudicial if all of the following conditions are met:

- (a) it does not fall into an exempt category (see below)
- (b) the matter affects either your financial interests or relates to regulatory matters - the determining of any consent, approval, licence, permission or registration
- (c) a member of the public who knows the relevant facts would reasonably think your personal interest so significant that it is likely to prejudice your judgement of the public interest.

Categories exempt from being prejudicial interest

- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
- (b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception)

Effect of having a prejudicial interest

If your personal interest is also prejudicial, you must not speak on the matter. Subject to the exception below, you must leave the room when it is being discussed and not seek to influence the decision improperly in any way.

Exception

The exception to this general rule applies to allow a member to act as a community advocate notwithstanding the existence of a prejudicial interest. It only applies where members of the public also have a right to attend to make representation, give evidence or answer questions about the matter. Where this is the case, the member with a prejudicial interest may also attend the meeting for that purpose. However the member must still declare the prejudicial interest, and must leave the room once they have finished making representations, or when the meeting decides they have

finished, if that is earlier. The member cannot vote on the matter, nor remain in the public gallery to observe the vote.

Prejudicial interests and overview and scrutiny

In addition, members also have a prejudicial interest in any matter before an Overview and Scrutiny body where the business relates to a decision by the Executive or by a committee or sub committee of the Council if at the time the decision was made the member was on the Executive/Council committee or sub-committee and was present when the decision was taken. In short, members are not allowed to scrutinise decisions to which they were party.

London Borough of Lewisham Annual Performance Review

Period Ending 31st March 2013

Monday 2nd September 2013

Lynn Coventry

Agenda

Section 1 – Market Environment

Section 2 – Total Fund Performance versus Local Authority Average

Appendix

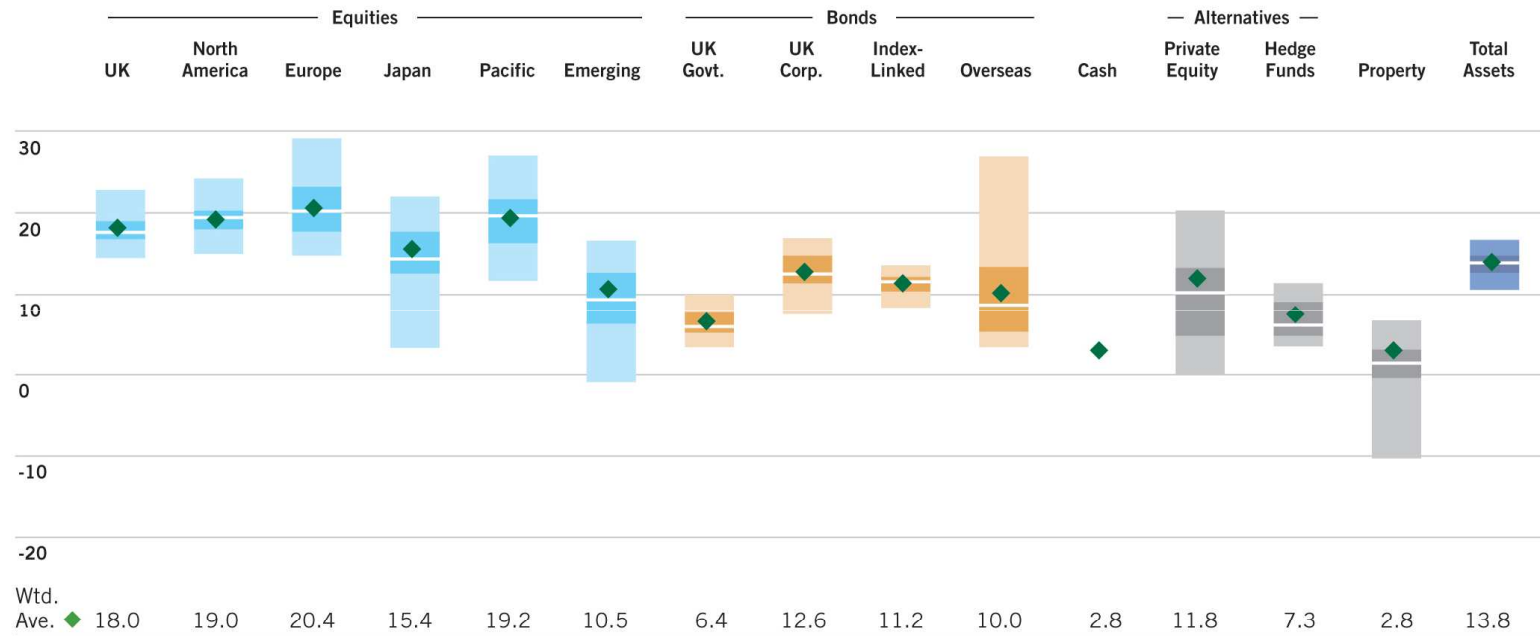
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Section 1

Market Environment

2012/2013 Returns and Ranges (%)



Source: State Street Investment Analytics, 2013.

Past performance is not a reliable indicator of future results.

Range of Results

- 5th to 95th Percentile ■
- 25th to 75th Percentile ■
- Median shown in white

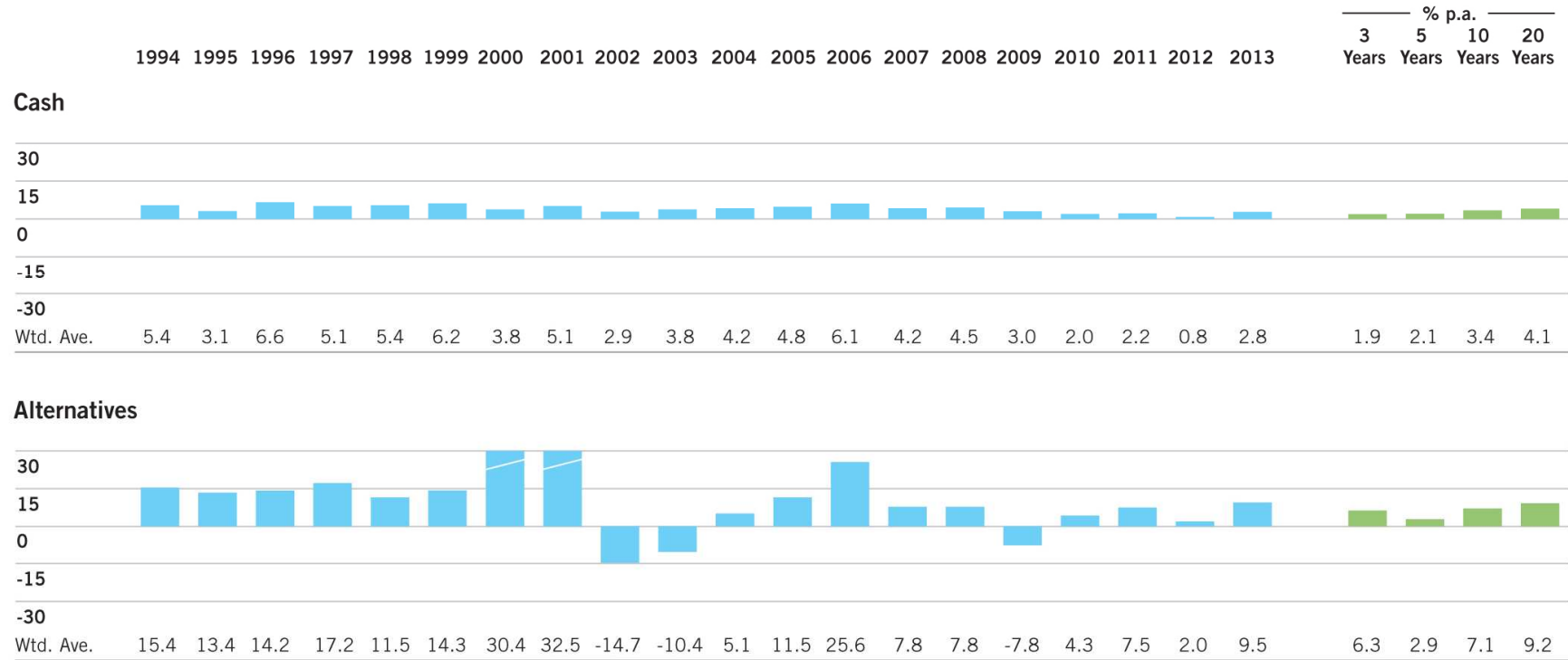
Annual Returns (%)*



* Source: State Street Investment Analytics, 2013.

Past performance is not a reliable indicator of future results.

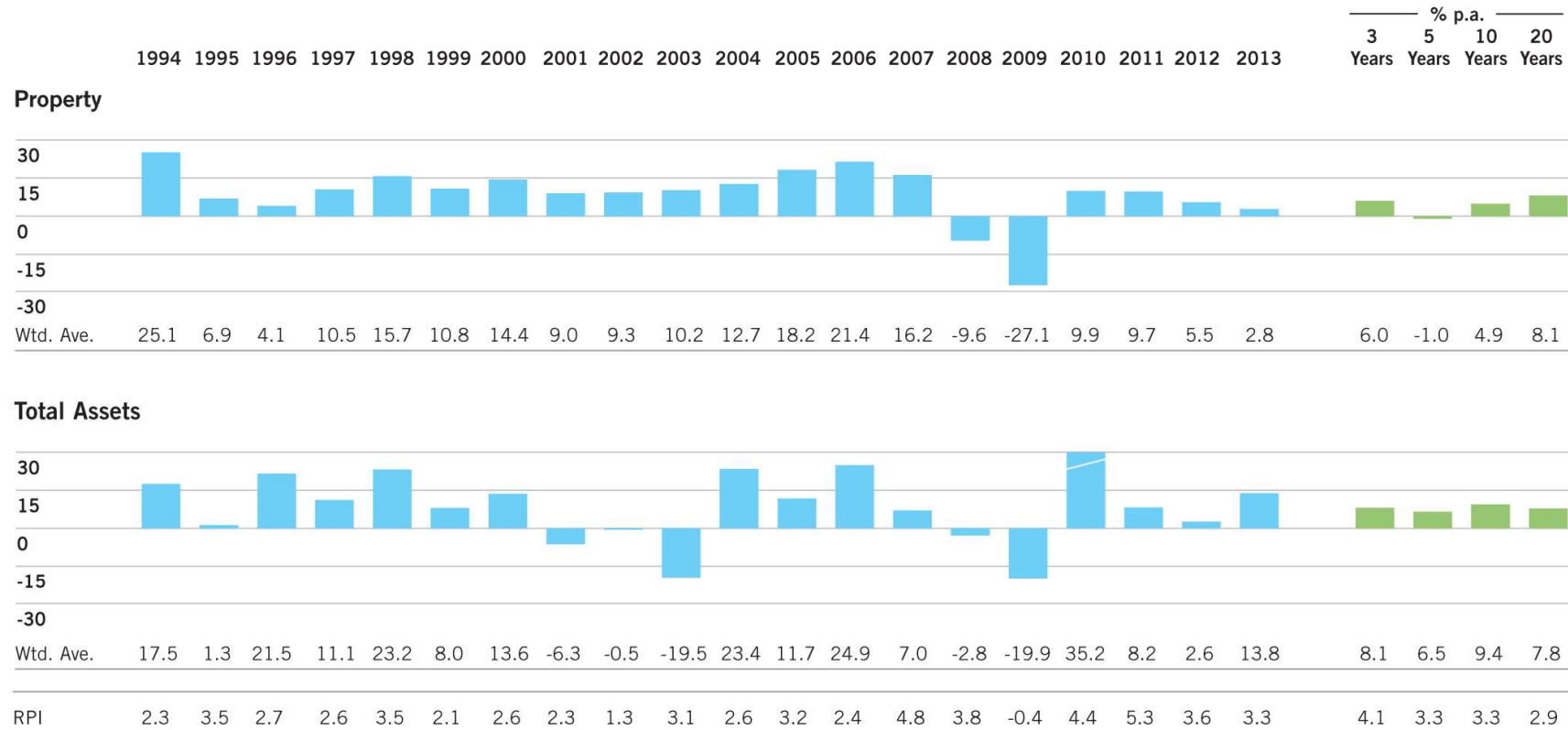
Annual Returns (%)*



* Source: State Street Investment Analytics, 2013.

Past performance is not a reliable indicator of future results.

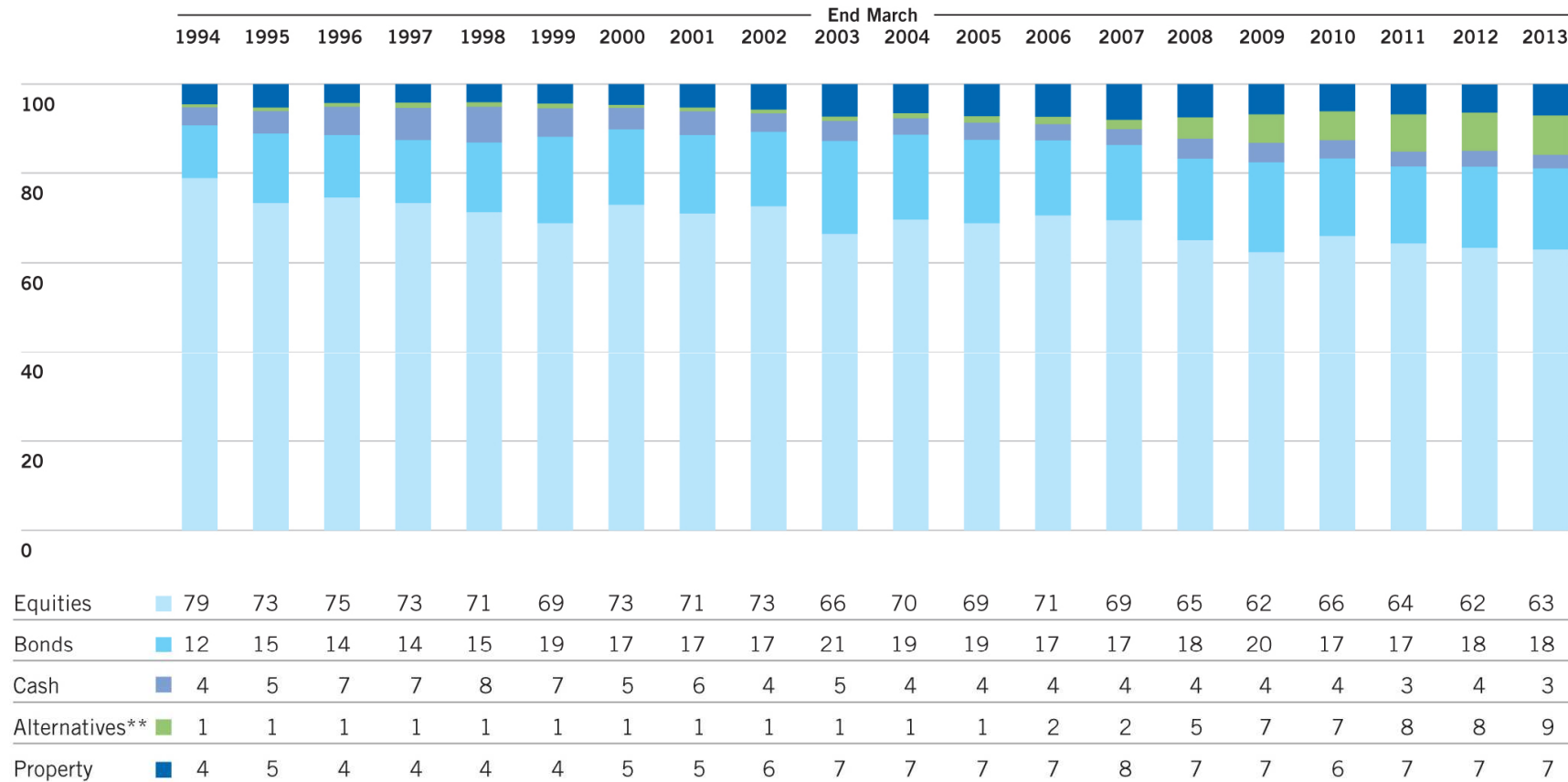
Annual Returns (%)*



* Source: State Street Investment Analytics, 2013.

Past performance is not a reliable indicator of future results.

Longer Term Asset Allocation (%)*



* Source: State Street Investment Analytics, 2013.

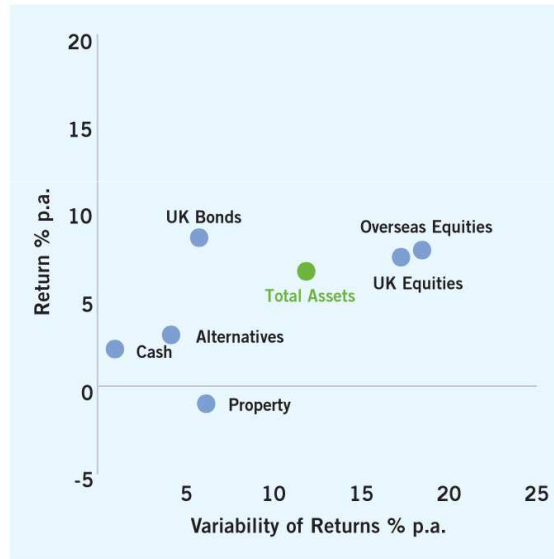
** Includes Pooled Multi-Asset from March 2010.

Past performance is not a reliable indicator of future results.

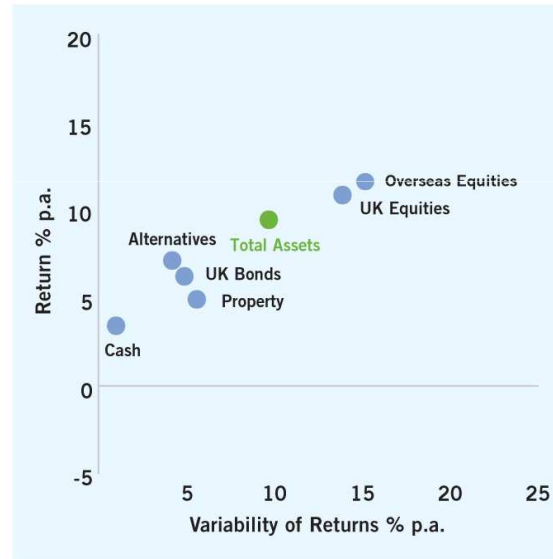
Long Term Risk and Return*

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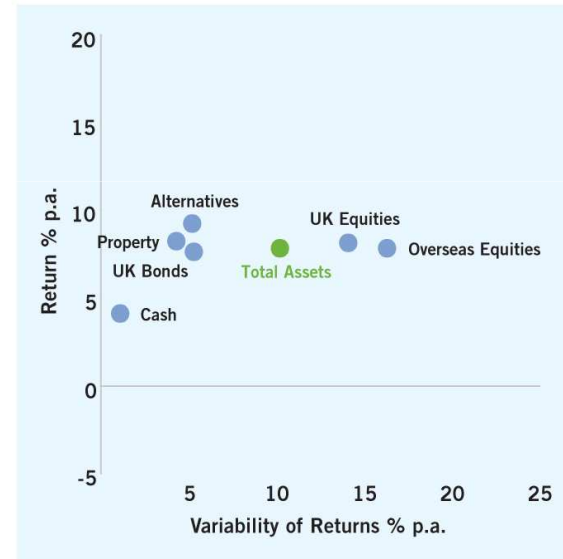
Last 5 Years



Last 10 Years



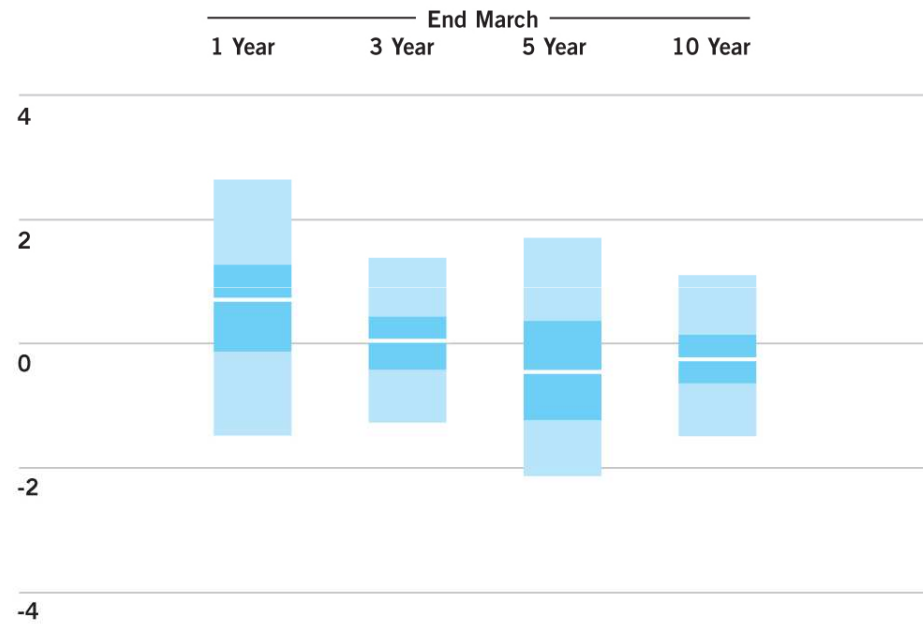
Last 20 Years



* Source: State Street Investment Analytics, 2013.

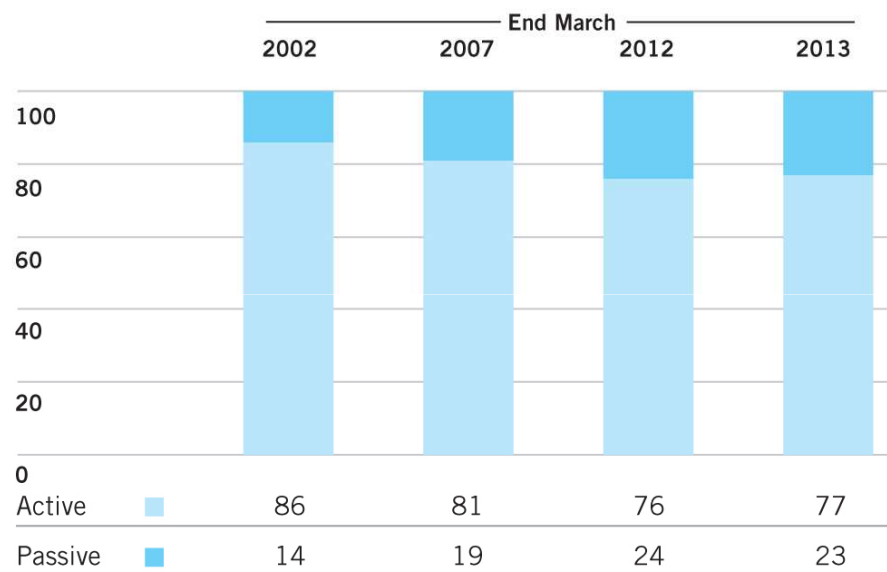
Past performance is not a reliable indicator of future results.

Performance Relative to Benchmark*



* Source: State Street Investment Analytics, 2013.
 Past performance is not a reliable indicator of future results.

Level of Indexation (%)*



* Source: State Street Investment Analytics, 2013.
 Past performance is not a reliable indicator of future results.

Section 2

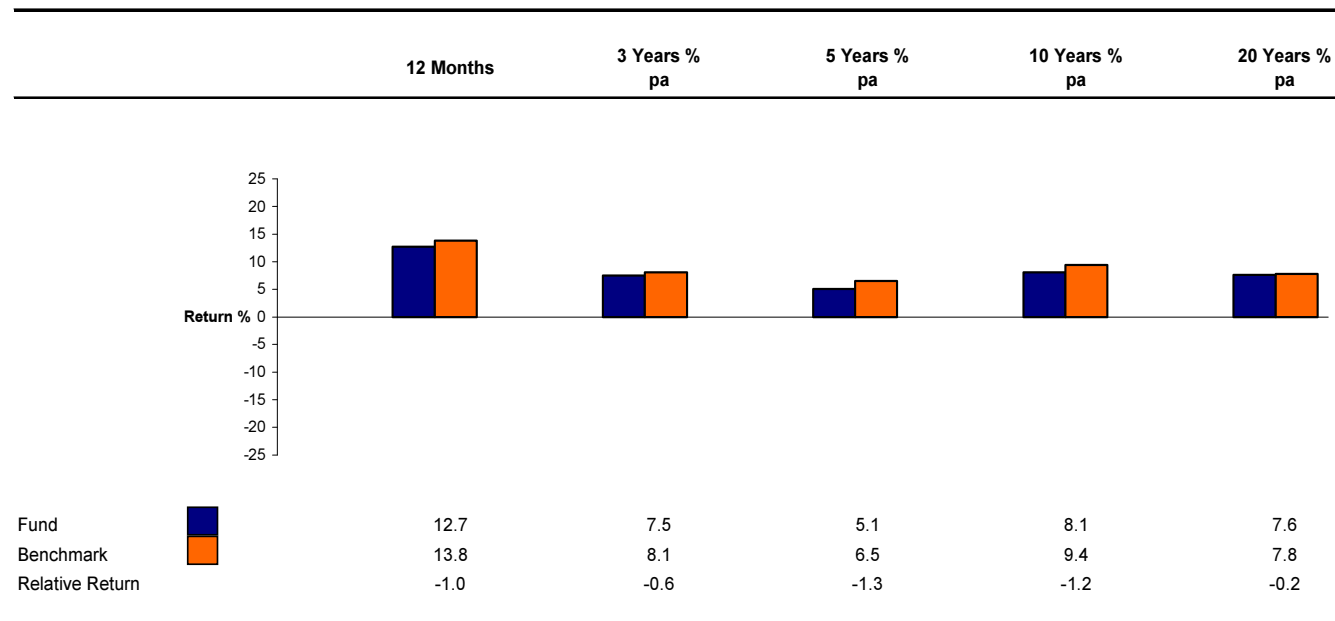
Total Fund Performance versus Local Authority Average Return

Total Performance Relative to Local Authority Average

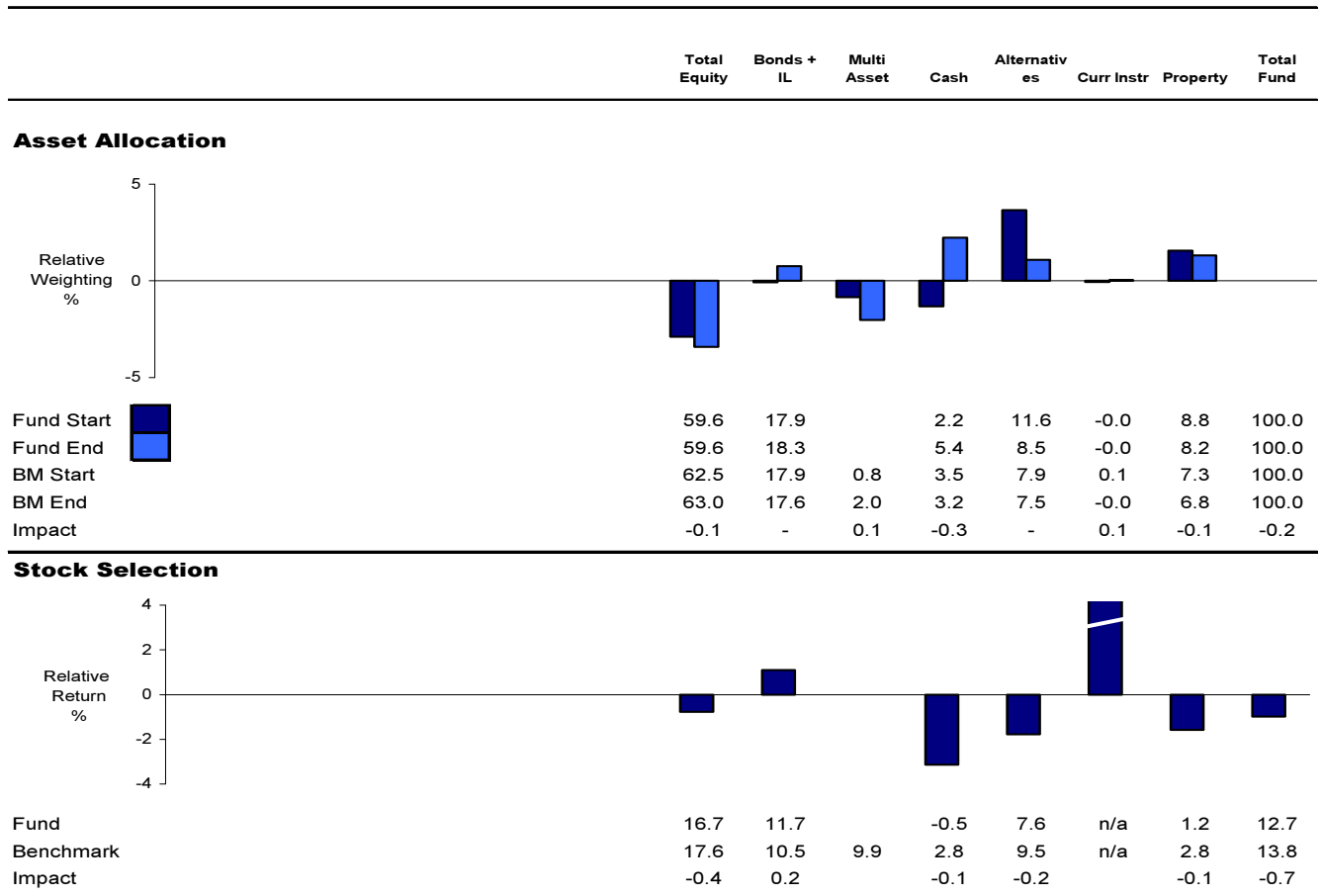
Fund Value

	Values GBP'000
Value at 30/03/2012	773,394
Transactions	-3,461
Capital Gain/Loss	87,875
Income	11,318
Value at 29/03/2013	857,808

Fund Returns

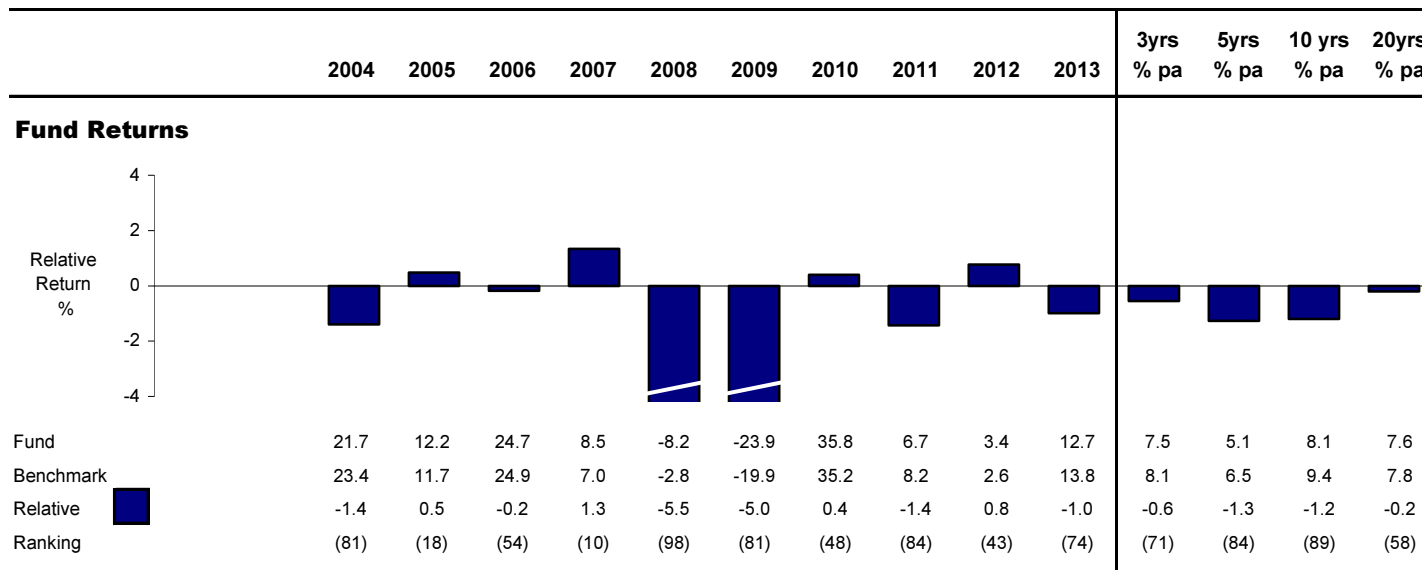


Latest Year Attribution



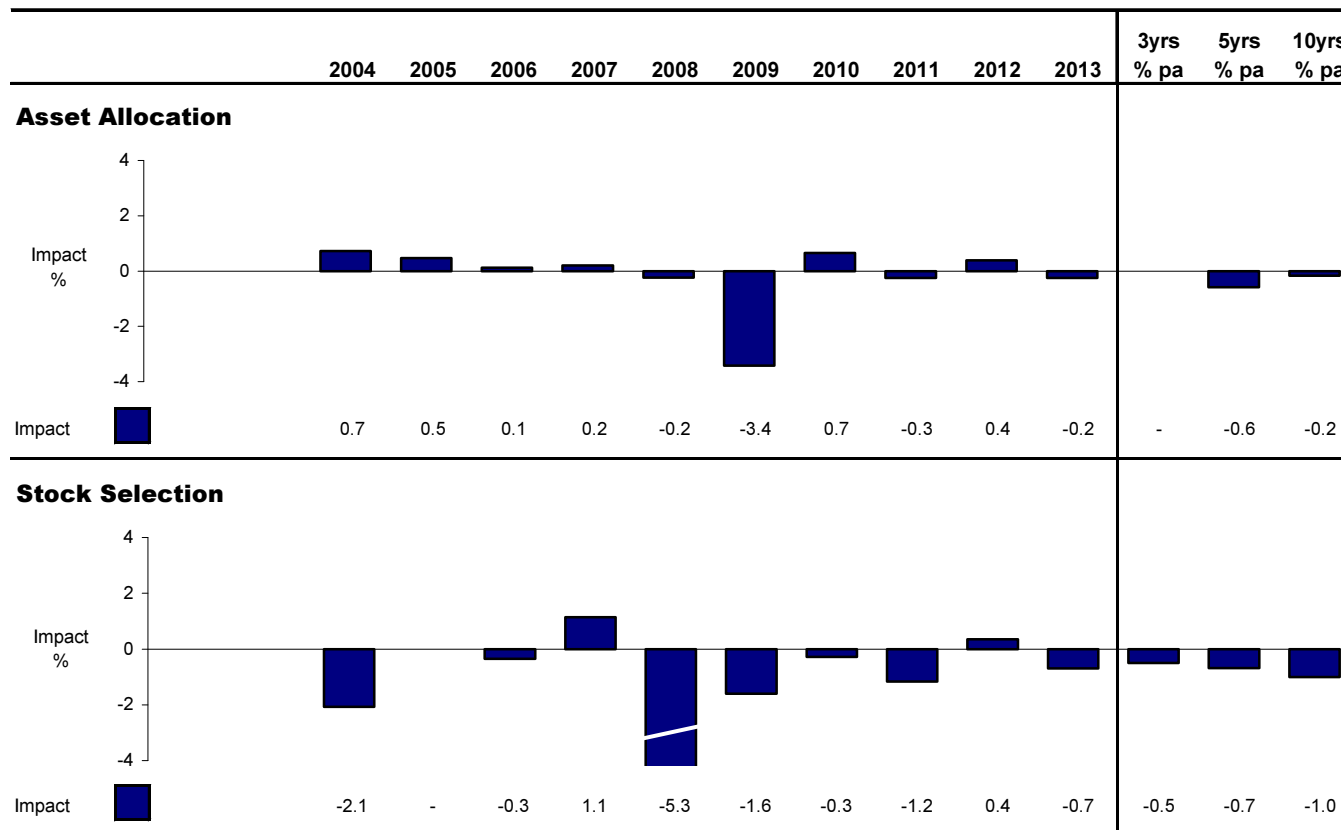
Longer Term Performance

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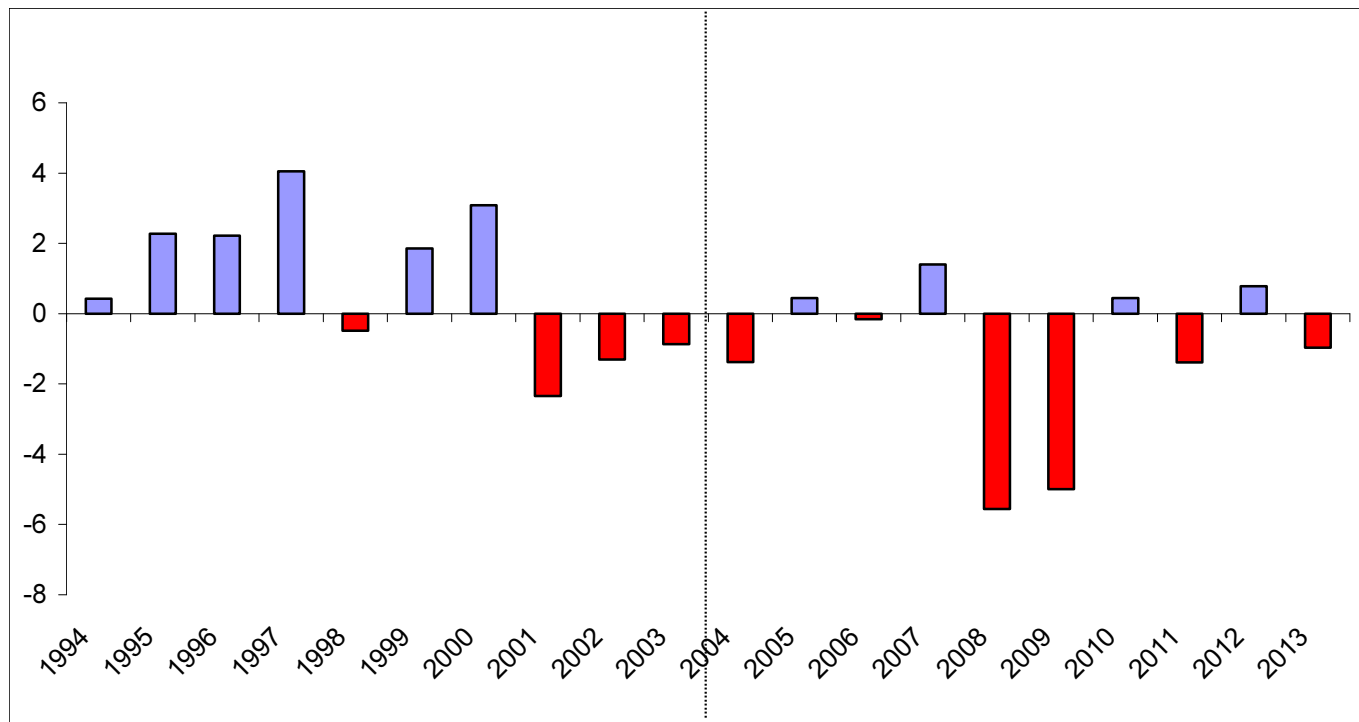
Longer Term Attribution

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Stock selection has been the key factor in the below average performance due mainly to the below average returns in UK and Overseas equities. The negative impact from asset allocation over the last 5 years was due mainly to the unfavourable impact from currency hedging (notably 2009).

Performance Relative to Local Authority Average

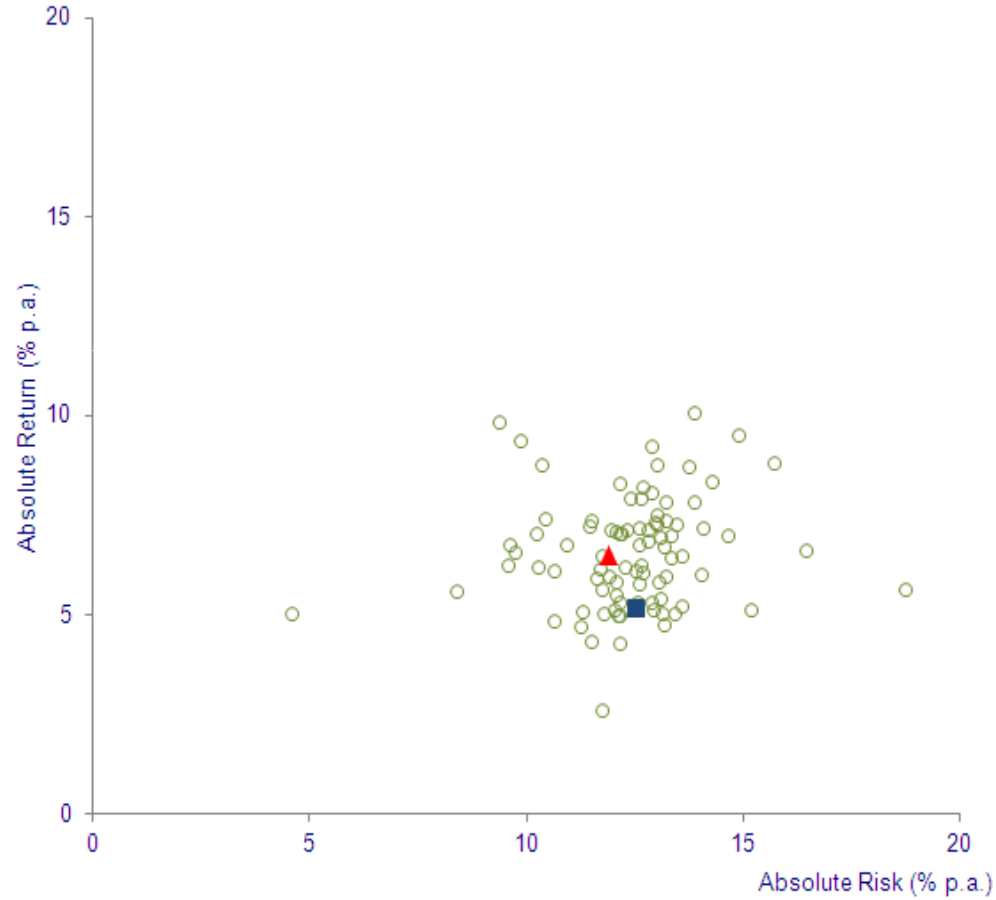


Performance relative to the Local Authority average has been particularly unfavourable in the most recent 10 year period.

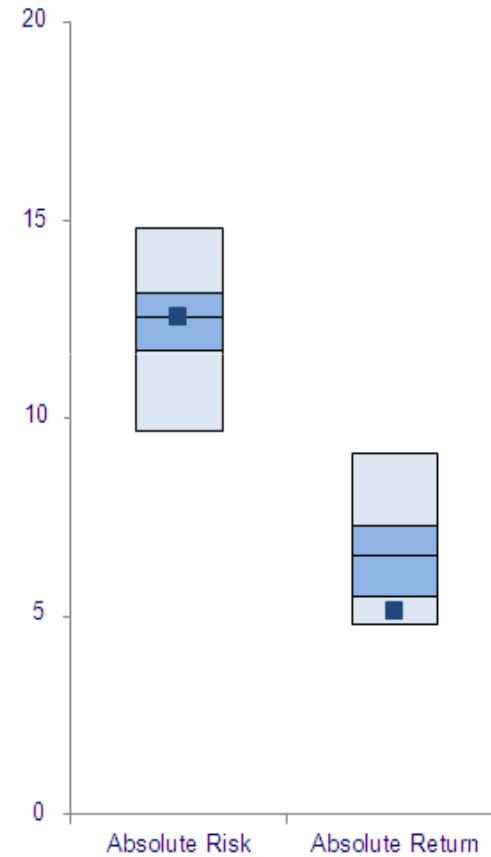
Risk Adjusted Return Analysis – Five Years % p.a.

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Absolute Risk & Return

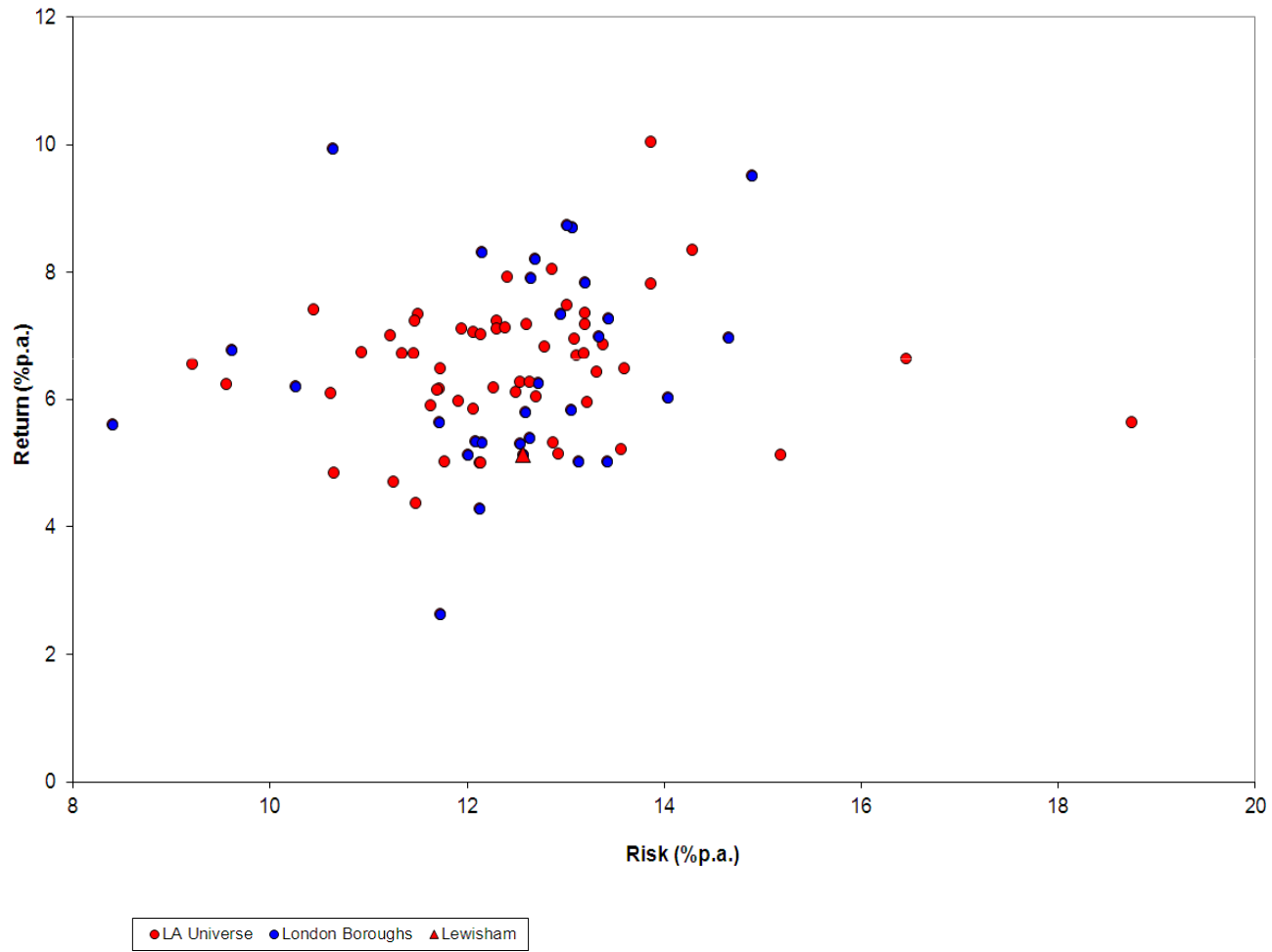


■ Your Fund. ▲ Local Authority Average



London Boroughs Absolute Risk – 5 Years % p.a.

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Overall Conclusions

- *The Fund had an absolute return of 12.7% over the latest year, which was 1.0% behind the Local Authority Average return of 13.8%.*
- *Below average performance continues over the longer term with stock selection in equity investments proving unfavourable.*
- *The impact of the below average performance during 2008 and 2009 has had a particularly detrimental impact.*
- *The return of 7.6% p.a. over the last 20 years compares with the UK RPI index return of 2.9% p.a., a real return of 4.6% p.a.*

Summary of Returns and Rankings

Return %	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3yrs % pa	5yrs % pa	10yrs % pa
<i>Total Equity</i>	28.7 (95)	12.9 (46)	29.7 (82)	8.5 (23)	-11.0 (100)	-27.5 (75)	48.1 (72)	6.4 (97)	0.6 (37)	16.7 (75)	7.7 (86)	6.0 (86)	9.3 (98)
<i>UK Equities</i>	27.4 (100)	13.4 (95)	23.0 (100)	11.2 (40)	-14.8 (98)	-30.3 (70)	50.9 (61)	7.8 (86)	0.2 (93)	15.9 (93)	7.8 (96)	5.7 (85)	8.3 (98)
<i>O/S Equities</i>	31.5 (69)	11.5 (16)	40.3 (19)	4.7 (22)	-5.3 (87)	-25.7 (85)	46.3 (69)	5.7 (91)	0.9 (15)	16.6 (69)	7.5 (64)	6.2 (86)	10.7 (74)
<i>Total Bonds</i>	1.6 (75)	4.7 (83)	8.0 (38)	-0.3 (61)	2.5 (55)	-0.8 (57)	32.1 (8)	9.0 (4)	12.5 (36)	11.2 (43)	10.9 (19)	12.3 (2)	7.7 (4)
<i>UK Bonds</i>	2.8 (76)	5.4 (70)	10.1 (13)	0.8 (36)	-1.8 (87)	-6.8 (75)	32.1 (7)	9.0 (3)	12.5 (42)	11.4 (46)	11.0 (17)	11.0 (8)	7.1 (7)
<i>O/S Bonds</i>	-1.8 (49)	1.8 (98)	0.3 (98)	-4.8 (71)	16.3 (38)	36.0 (18)				-0.6 #			
<i>UK IL</i>	6.5 (39)	-0.5 #					10.5 (51)	6.9 (32)	21.6 (20)	0.7 #			
<i>Cash/ Alts</i>	3.8 (38)	9.9 (8)	-1.0 (100)	3.4 (62)	10.4 (16)	-9.4 (71)	2.5 (44)	8.6 (16)	-1.4 (86)	4.5 (49)	3.8 (40)	0.8 (75)	3.0 (60)
<i>Cash</i>	3.8 (27)	9.7 (5)	-1.2 (97)	3.3 (65)	7.0 (24)	13.1 (11)	6.5 (6)	4.0 (22)	0.1 (71)	-0.5 (83)	1.2 (37)	4.5 (15)	4.5 (9)
<i>Alternatives</i>	0.0 #	16.1 #	13.4 (44)	2.2 (70)	16.8 (20)	-5.7 (45)	-0.1 (66)	8.8 (37)	-1.6 (83)	7.6 (56)	4.8 (57)	1.6 (57)	
<i>Private Eq</i>				2.3 (59)	16.8 (48)	0.7 (55)	-11.8 (79)	10.4 (47)	7.0 (33)	17.6 (10)	11.6 (24)	4.3 (43)	
<i>Total Hedge</i>				0.0 #		-10.1 #	13.2 (52)	1.0 (85)	-4.3 (92)	-2.3 #			
<i>Total Other</i>								11.7 (31)	-6.2 (81)	0.8 (68)	1.8 (69)		
<i>Property</i>	13.0 (37)	19.5 (28)	25.5 (8)	20.9 (8)	-15.1 (97)	-31.0 (71)	3.6 (84)	6.4 (86)	5.4 (42)	1.2 (57)	4.3 (69)	-4.1 (76)	3.5 (76)
<i>UK Property</i>	13.0 (37)	19.5 (28)	25.5 (8)	20.9 (8)	-15.1 (97)	-31.0 (64)	2.9 (93)	6.4 (90)	5.4 (49)	1.2 (57)	4.3 (74)	-4.2 (78)	3.4 (79)
Total Assets	21.7 (81)	12.2 (18)	24.7 (54)	8.5 (10)	-8.2 (98)	-23.9 (81)	35.8 (48)	6.7 (84)	3.4 (43)	12.7 (74)	7.5 (71)	5.1 (84)	8.1 (89)

not invested in this area for the entire period

Asset Class Performance*

	% of Asset Class		% p.a. Return			
	At end 2011/12	At end 2012/13	3 Yrs	5 Yrs	10 Yrs	20 Yrs
Equities	100	100				
UK Equities	40.7	38.8	9.8	7.3	10.8	8.1
Overseas Equities	52.2	52.8	7.8	7.7	11.6	7.8
North America	17.3	18.5	11.4	10.5	8.4	7.7
Continental Europe	12.8	12.8	5.9	4.1	11.6	9.3
Japan	5.5	5.4	5.3	5.9	7.5	2.3
Pacific ex Japan	5.8	5.7	9.4	11.4	17.2	9.4
Emerging Markets	8.4	9.1	4.3	6.8	17.1	-
Global	7.1	8.4	7.8	6.7	-	-
Bonds	100	100				
UK	58.5	58.5	9.2	8.4	6.2	7.6
Index-Linked	26.6	23.1	12.3	9.3	8.0	7.9
Overseas Bonds	10.8	12.9	6.6	8.5	5.7	6.0
Pooled	4.2	5.5	7.1	-	-	-
Alternatives	100	100				
Private Equity	55.2	55.5	9.1	5.3	-	-
Hedge Funds	28.5	30.5	4.1	1.3	-	-
Active Currency	1.9	0.5	-4.0	-6.1	-	-
Commodities	3.2	2.6	1.8	-1.7	-	-
GTAA	2.9	1.7	2.7	0.7	-	-
Infrastructure	8.3	9.1	3.9	3.5	-	-

* Source: State Street Investment Analytics, 2013.

Past performance is not a reliable indicator of future results.

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Performance for the quarter ended 30 June 2013		
KEY DECISION	No	Item No:	5
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	2 September 2013

1. SUMMARY

- 1.1 This report sets out the performance of the Pension Fund investment portfolio and that of the individual managers for the quarter ended 30 June 2013.
- 1.2 The report comprises the following sections:
 - 2. Recommendation
 - 3. Background
 - 4. Portfolio Summary
 - 5. Conclusions
 - 6. Financial Implications
 - 7. Legal Implications
 - 8. Crime and disorder Implications
 - 9. Equalities Implications
 - 10. Environmental Implications

2. RECOMMENDATION

- 2.1 The Committee is recommended to note the contents of the report.

3. BACKGROUND

- 3.1 This report sets out the performance for the quarter ended 30 June 2013 and since inception, as provided by the Fund's investment advisors Hymans Robertson. The full report and performance commentary will be provided at the meeting by the investment advisors.

4. PORTFOLIO SUMMARY

- 4.1 The Pensions Fund had an overall market value of £858.8m for the quarter ended 30 June 2013. The Fund's value has decreased by £11m over the quarter, with

the Fund's bond mandates being the main detractors to performance. The Fund outperformed its benchmark by 0.3%, returning -1.3%.

4.2 The Fund's valuation summary has been set out below in Table 1.

Table 1 – Portfolio Valuation Summary

Manager	Mandate	Asset Value Qtr 1 (Mar'2013) £m	Asset Value Qtr 2 (Jun'2013) £m	Actual Proportion %	Target Proportion %
Blackrock	Passive Multi-asset	339.4	334.1	38.9	39.0
Harbourvest	Venture Capital	37.5	38.8	4.5	3.0
Investec	Commodities	37.9	35.7	4.2	5.0
M&G	UK Financing Fund	13.4	13.5	1.6	1.0
Schroders	Property	71.0	71.6	8.3	10.0
UBS	Passive Multi-asset	340.3	334.9	39.0	39.0
Cash		30.3	30.2	3.5	3.0
Total Fund		869.8	858.8	100.0	100.0

4.3 The performance of the individual managers relative to the appropriate benchmarks is as set out in Table 2. This indicates the volatility of returns and the continuing mixed performance of all mandates.

Table 2: Managers Performance Relative to Target

Manager	Quarter Ended 31 March 2013	12 Months to 30 June 2013	Since Inception
Blackrock – Passive Multi-asset	0.1%	N/A	-0.2%
Harbourvest – Venture Capital	2.3%	-8.8%	0.4%
Investec – Commodities	3.9%	3.7%	1.5%
M&G – UK Financing Fund	1.2%	4.3%	2.7%
Schroders – Property	-0.6%	-1.1%	-0.8%
UBS – Passive Multi-asset	-0.0%	N/A	-0.1%

4.4 The performance of individual managers will be analysed and appraised by the Council's Investment Advisor, Hymans Robertson, at the meeting.

5. CONCLUSION

5.1 Relative performance from the Fund's active managers was mixed, with underperformance from Schroders (property) offset by outperformance with Investec (commodities), Harbourvest (private equity) and the M&G UK Financing Fund.

6. FINANCIAL IMPLICATIONS

6.1 The comments of the Executive Director for Resources & Regeneration have been incorporated into the report.

7. LEGAL IMPLICATIONS

- 7.1 As the administering authority for the Fund, the Council must review the performance of the Fund's investments at regular intervals and review the investments made by Fund Managers quarterly.
- 7.2 The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisers in relation to decisions affecting the Pension Fund. They must also have regard to the separate advice of the Chief Financial Officer who has statutory responsibility to ensure the proper administration of the Council's financial affairs, including the administration of the Pension Fund.

8. CRIME AND DISORDER IMPLICATIONS

- 8.1 There are no crime and disorder implications directly arising from this report.

9. EQUALITIES IMPLICATIONS

- 9.1 There are no equalities implications directly arising from this report.

10. ENVIRONMENTAL IMPLICATIONS

- 10.1 There are no environmental implications directly arising from this report.

APPENDICES

The full report and performance is attached. Commentary will be provided at the meeting by the Council's investment advisors, Hymans Robertson.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:

Selwyn Thompson, Group Finance Manager Budget Strategy on 020 8314 6932.

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2013

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➤ Prepared By:

Scott Donaldson - Partner
Albert Chen - Associate Consultant
Chris Beattie - Investment Analyst

For and on behalf of Hymans Robertson LLP
August 2013

Real people. Real skills. Real results.

Contents

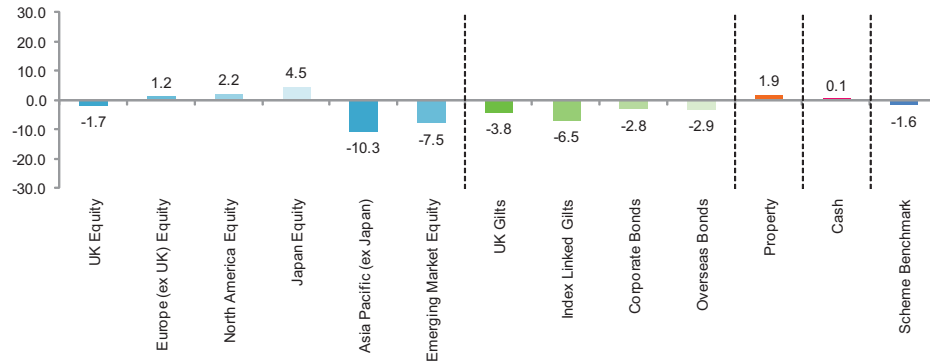
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

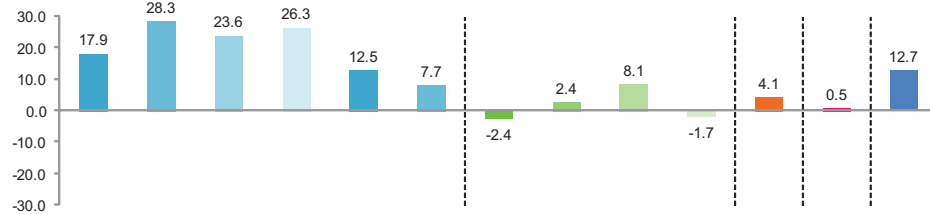
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Historic Returns for World Markets to 30 June 2013

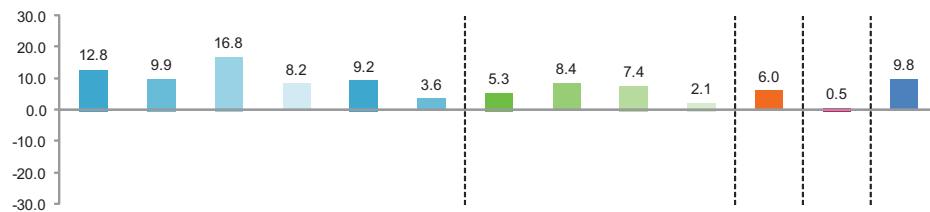
3 Months (%)



2 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Perhaps the most significant event during the quarter came in late May, when the US central bank hinted it may begin scaling back its programme of asset purchases by the end of the year. This raised immediate concerns that economic activity, which the programme was designed to support in the first instance, might be adversely affected. Signs of a potential credit crunch in China, reduced forecasts for economic growth in the Eurozone and an uncertain outlook in the UK added to the sense of unease. Equity markets responded with sharp falls, particularly in Asia Pacific and Emerging Markets, offsetting gains earlier in the quarter. The FTSE All-World index was flat over the quarter. In the UK, the FTSE All Share index returned -1.7% over the quarter.

Bond investors interpreted the prospect of reduced assets purchases in the US with some caution. Bond prices fell (yields rose), in all major markets. The yield on the 10 year US Treasury, a widely followed benchmark, reached its highest level in more than a year.

In the UK, the Chancellor of the Exchequer presented his spending review in June against a background of intense debate over the efficacy of austerity. Further savings of £11.5bn were announced. With an eye beyond the immediate difficulties, the Chancellor also announced funding of £100bn for infrastructure projects between now and the end of the decade.

Key events during the quarter were:

Global Economy

- The Governor of the Bank of England stated the UK economy is showing signs of renewed vigour; the UK 'funding for lending' scheme was extended, despite poor initial take up;
- Rating agency S&P raised its outlook for the US economy but reiterated concerns about the high level of debt;
- The European Commission allowed some member states to slow the pace of austerity measures;
- Short-term interest rates were unchanged in UK, US and Japan but were cut in the Eurozone, from 0.75% to 0.50%;
- The Eurozone reported a sixth consecutive quarter of economic contraction, for the quarter to 31 March 2013.

Equities

- The best performing sectors relative to the 'All World' Index were Health Care (+3.0%) and Telecommunications (+2.9%); the worst were Basic Materials (-9.8%) and Oil & Gas (-3.1%);
- The Dow Jones equity index (US) reached a record high (15,000) in May.

Bonds

- UK government bond prices fell (yields rose), but outperformed their overseas counterparts;
- UK index linked issues (-6.5%) underperformed fixed interest issues (-3.8%).



Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2013	Q2 2013			
Global Equity	522.1	518.4	60.4	60.0	0.4
Bonds	157.5	150.6	17.5	18.0	-0.5
Property	71.0	71.6	8.3	10.0	-1.7
Private Equity	37.5	38.8	4.5	3.0	1.5
Cash	30.3	30.2	3.5	3.0	0.5
UK Financing Fund	13.4	13.5	1.6	1.0	0.6
Commodities	37.9	35.7	4.2	5.0	-0.8
Total inc. Trustee Bank Account	869.8	858.8	100.0	100.0	

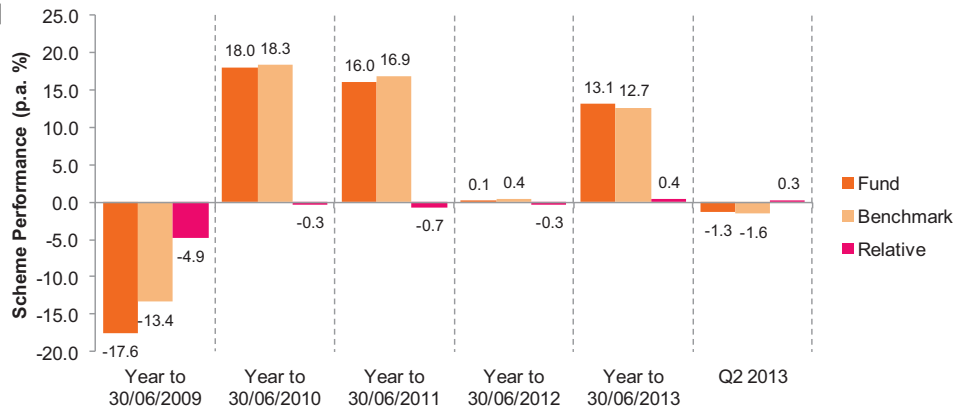
Comments

The value of the Fund's assets decreased by £11.0m over the quarter to £858.8m as at 30 June 2013, with the Fund's bond mandates the main detractors to performance. The Fund outperformed its benchmark by 0.3%, returning -1.3%.

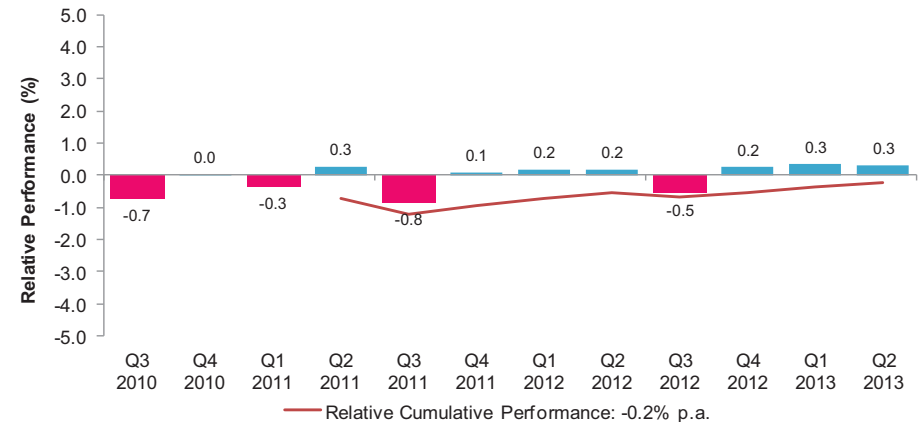
Relative performance from the Fund's active managers was mixed, with underperformance from Schroders (Property) offset by outperformance from Investec (Commodities), HarbourVest (Private Equity) and the M&G UK Financing Fund.

As expected, the passive mandates with BlackRock and UBS performed broadly in line with their composite benchmarks for the quarter.

Performance Summary [i]



Relative Quarterly and Relative Cumulative Performance

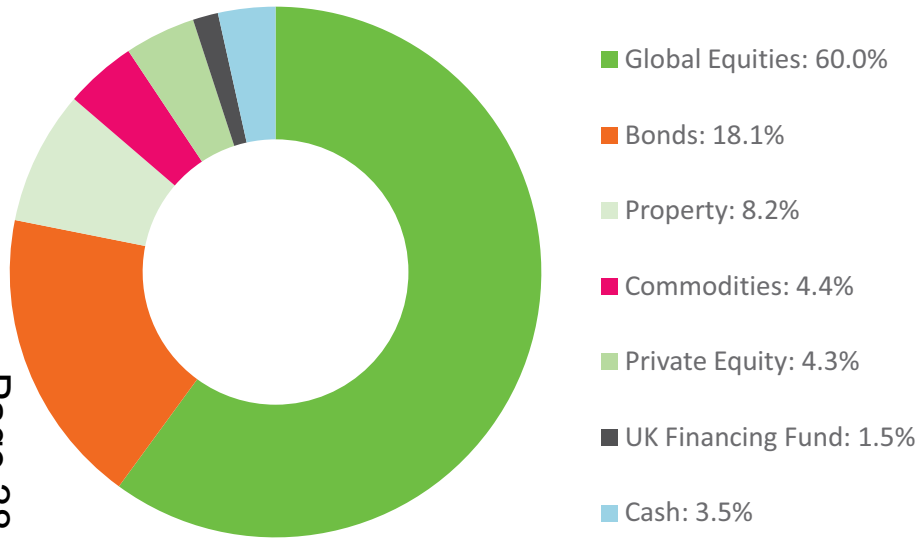


Source: [i] DataStream, Fund Manager, Hymans Robertson

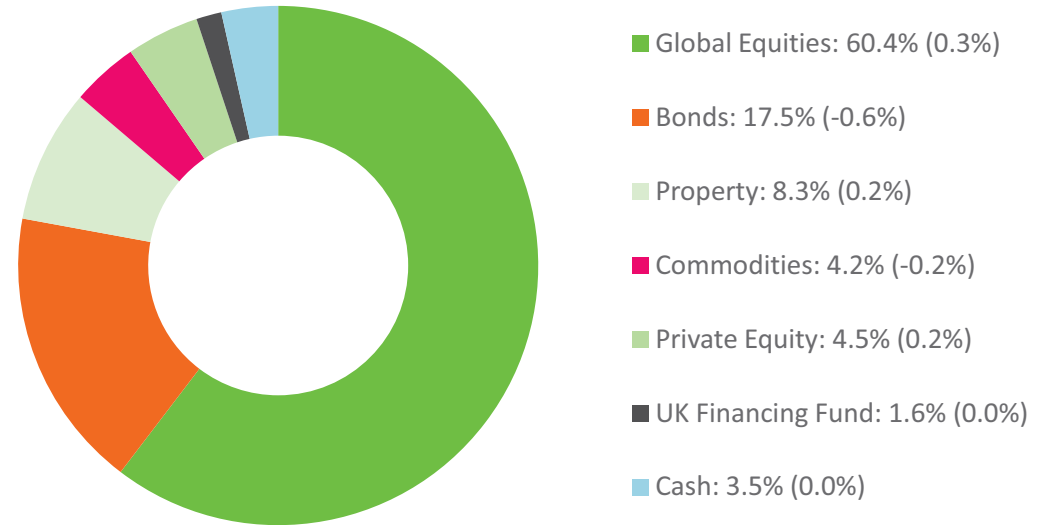


Fund Asset Allocation

Asset allocation as at 31 March 2013



Asset allocation as at 30 June 2013



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Comments ^[i]

Over the quarter, there were no significant changes to the Fund's asset allocation at an asset class level, with minor changes in the allocations attributable to relative market movements

Source: [i] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2013	Q2 2013			
BlackRock - Passive Multi-asset	339.4	334.1	38.9	39.0	-0.1
UBS - Passive Multi-asset	340.3	334.9	39.0	39.0	-0.0
Schroders - Property	71.0	71.6	8.3	10.0	-1.7
Investec - Commodities	37.9	35.7	4.2	5.0	-0.8
Harbourvest - Venture Capital	37.5	38.8	4.5	3.0	1.5
M&G - UK Companies Financing Fund	13.4	13.5	1.6	1.0	0.6
Cash	30.3	30.2	3.5	3.0	0.5
Total	869.8	858.8	100.0	100.0	0.0

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Manager Summary

Manager	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
BlackRock - Passive Multi-asset	20 Nov 2012	Composite	-	
UBS - Passive Multi-asset	15 Nov 2012	Composite	-	
Schroders - Property	12 Oct 2004	IPD Pooled Property Fund Index	-	
Investec - Commodities	25 Feb 2010	Dow Jones-UBS Commodities Total Return Index	-	
Harbourvest - Venture Capital	29 Jun 2006	MSCI All Country World Developed Index	5% p.a. above benchmark	
M&G - UK Companies Financing Fund	01 May 2010	LIBOR	4-6% p.a. above benchmark	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain



Performance Summary - Managers

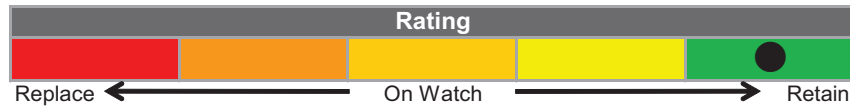
Performance Summary ^[i]

		BlackRock - Passive Multi-asset	UBS - Passive Multi-asset	Schroders - Property	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Cash	Total Fund
3 Months (%)	Absolute	-1.5	-1.6	0.8	-5.9	3.3	1.3	N/A	-1.3
	Benchmark	-1.6	-1.6	1.4	-9.4	1.0	0.1	N/A	-1.6
Relative		0.1	0.0		3.9	2.3	1.2	N/A	0.3
				-0.6					
12 Months (%)	Absolute	N/A	N/A	1.9	-1.4	12.6	4.9	N/A	13.1
	Benchmark	N/A	N/A	3.0	-4.9	23.4	0.6	N/A	12.7
Relative		N/A	N/A		3.7		4.3	N/A	0.4
				-1.1		-8.8			
3 Years (% p.a.)	Absolute	N/A	N/A	3.8	-0.4	9.2	3.7	N/A	9.5
	Benchmark	N/A	N/A	4.7	-0.8	13.9	0.7	N/A	9.8
Relative		N/A	N/A		0.4		3.0	N/A	
				-0.9		-4.1			-0.2
Since Inception (% p.a.)	Absolute	13.0	13.1	2.1	-0.3	6.5	3.4	N/A	7.3
	Benchmark	13.2	13.2	3.0	-1.8	6.1	0.7	N/A	7.7
Relative					1.5	0.4	2.7	N/A	
		-0.2	-0.1	-0.8					-0.3



BlackRock - Passive Multi-Asset

HR View Comment & Rating



In early 2013, we were informed of two departures from BlackRock's UK Equity team, Nick McLeod-Clarke and Mark Lyttleton. BlackRock has since informed us that Lyttleton has been arrested for insider dealing. Within the team, Lyttleton's main role was managing largely retail funds. BlackRock has stated that any unlawful activity for personal gain took place outside BlackRock's premises and there is no suggestion that clients' interests were compromised in any way by Lyttleton's actions. The FCA has confirmed that neither BlackRock itself or any existing BlackRock employees are under investigation.

BlackRock remains one of our preferred passive managers.

Performance Summary to 30 June 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception*
Fund	-1.5	N/A	N/A	13.0
Benchmark	-1.6	N/A	N/A	13.2
Relative	0.1	N/A	N/A	-0.2

* Inception date 20 Nov 2012.

Performance Summary - Comment

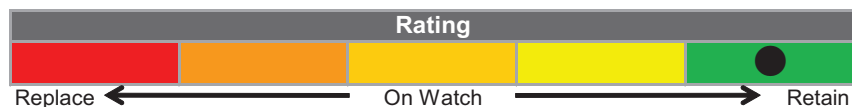
The BlackRock composite benchmark comprises the FTSE All Share (20.5%), MSCI AC World (56.5%), FTSE All Stocks Index-Linked Gilts (7.7%), FTSE All Stocks Gilts Index (7.6%), and iBoxx £ Non-Gilts All Stocks (7.7%).

Over the quarter, the BlackRock multi-asset mandate delivered a negative return of -1.5%, marginally outperforming its composite benchmark return of -1.6%. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect.



UBS - Passive Multi-Asset

HR View Comment & Rating



There was no significant news to report for the UBS passive business during the quarter.

Performance Summary to 30 June 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-1.6	N/A	N/A	13.1
Benchmark	-1.6	N/A	N/A	13.2
Relative	0.0	N/A	N/A	-0.1

* Inception date 15 Nov 2012.

Performance Summary - Comment

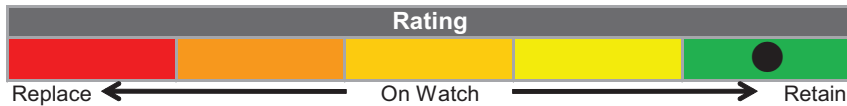
The UBS composite benchmark comprises the FTSE All Share (20.5%), FTSE All World (inc UK) (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index LInked Gilts (7.7%) and iBoxx Sterling Non-Gilts All Stocks (7.7%) indices.

During the quarter, the UBS multi-asset mandate delivered a negative return of -1.6%, performing in line with its composite benchmark. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect.



Schroders - Property

HR View Comment & Rating



There was no significant news to report over the quarter.

Performance Summary to 30 June 2013 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	0.8	1.9	3.8	2.1
Benchmark	1.4	3.0	4.7	3.0
Relative	-0.6	-1.1	-0.9	-0.8

* Inception date 12 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-0.9	0.0

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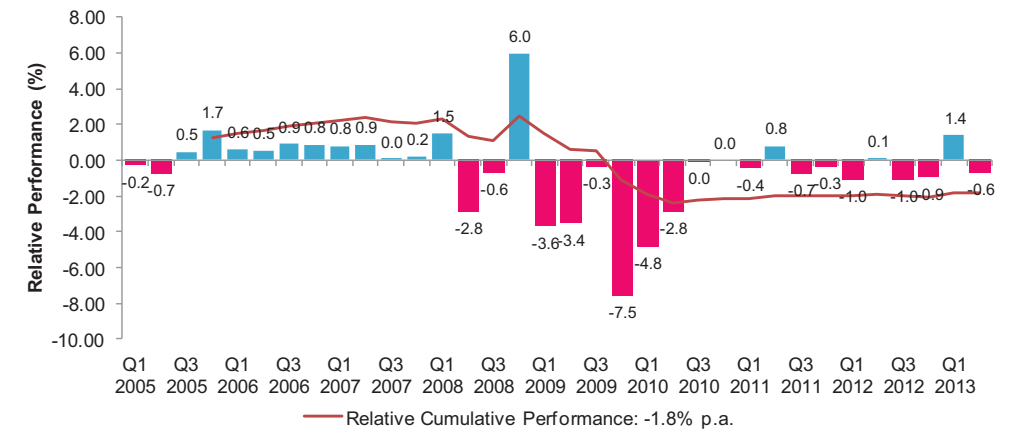
Performance Summary - Comment

The portfolio underperformed its benchmark over the quarter, returning 0.8% against the benchmark return of 1.4%.

Underperformance was attributable to the portfolio's exposure to non-UK assets (12% of the portfolio). The Schroder Real Estate Fund of Funds – Continental European Fund I (CEF I) detracted from performance as a result of a material write down of a holding in the Valad V+ Nordic Property Fund which suffered from weak occupier and investor demand. The Lend Lease Real Estate Partnership 3 also detracted from performance due to depreciation in the Australian dollar versus sterling. The West End of London PUT and the specialist funds with an income bias (e.g. Real Income Fund) continued to perform well and the manager believes that these funds are well placed to deliver strong returns in the coming quarters.

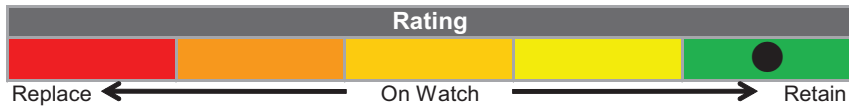
The manager continues to maintain an overweight position to 'alternative' property and central London offices and expects that an underweight position to the retail sector will benefit performance for the rest of 2013. Schroders intends to exit the portfolio's Rockspring Hanover PUT holding (7.3% of the portfolio) over the coming months with the proceeds of the sale ear-marked for more favoured balanced funds.

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



There was no significant news to report over the quarter.

Performance Summary to 30 June 2013 ^[i]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	-5.9	-1.4	-0.3
Benchmark	-9.4	-4.9	-1.8
Relative	3.9	3.7	1.5

* Inception date 25 Feb 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.4	0.0

Performance Summary - Comment

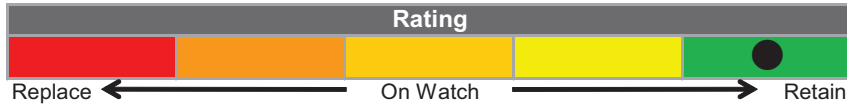
The Investec commodities mandate outperformed its benchmark over the quarter by 3.9%, returning -5.9% against the benchmark return of -9.4%.

The manager's short positions in precious metals equities were positive contributors to performance over the quarter as gold, platinum and palladium all fell. Investec's position in the base metals & bulks subsector was the main detractor from performance over the period, as macroeconomic concerns regarding China's growth and the Federal Reserve's plans to scale back its monetary stimulus impacted markets and hurt the fund's long equity holdings. Despite the strength of many names within the portfolio, the fund's long exposure to energy equities also detracted from performance.



Harbourvest - Venture Capital

HR View Comment & Rating



HarbourVest remains one of our favoured private equity fund of funds, being well placed to exploit any opportunities that may arise in the secondary market.

There were no significant business updates to report over the quarter.

Performance Summary to 30 June 2013 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	3.3	12.6	9.2	6.5
Benchmark	1.0	23.4	13.9	6.1
Relative	2.3	-8.8	-4.1	0.4

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-4.1	5.0

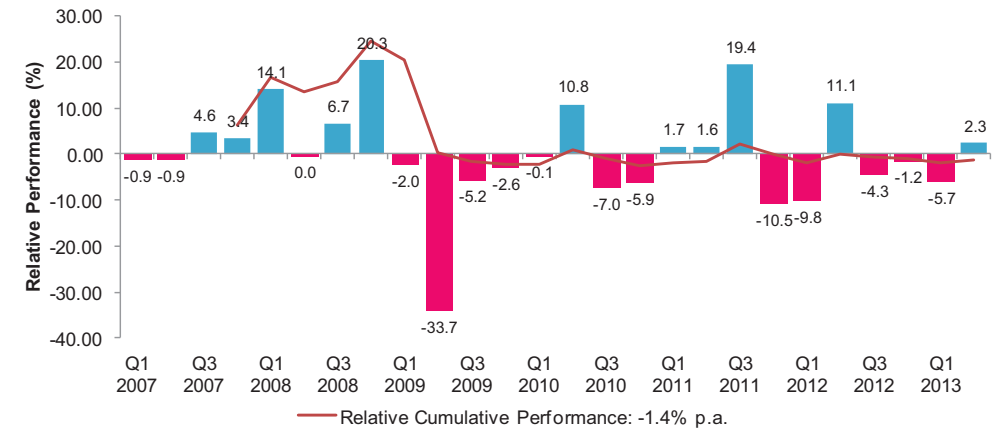
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Performance Summary - Comment

The HarbourVest mandate returned 3.3%, outperforming its benchmark return of 1.0%.

Given the volatility and pricing of this asset class, it can be misleading to place too much emphasis on short-term performance. The returns shown are sourced from Northern Trust.

Relative Quarterly and Relative Cumulative Performance



M&G - UK Companies Financing Fund

HR View Comment & Rating



There have been no significant changes to the M&G investment team to report during the period.

Performance Summary to 30 June 2013 ^[1]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	1.3	4.9	3.4
Benchmark	0.1	0.6	0.7
Relative	1.2	4.3	2.7

* Inception date 01 May 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
3.0	0.0

Performance Summary - Comment

The UK Companies Financing Fund (UKCFF) returned 1.3% (as reported by Northern Trust), ahead of its LIBOR benchmark return of 0.1%, for the quarter.

The manager reports that all loans within the portfolio are performing as expected. The weighted average credit rating of the portfolio was stable at BB+, with an average maturity of 5.5 years. The weighted average credit spread was 445bp at the end of the quarter.

In May, the Investment Committee undertook its semi-annual review of the UKCFF portfolio. Eight loans had their ratings affirmed, two were upgraded while one loan had its outlook changed to negative.



Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$((1 + \text{Fund Performance}) / (1 + \text{Benchmark Performance})) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months			-0.25%			0.96%	-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	0.34%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.



Agenda Item 6

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Update on the Local Government Pension Scheme reforms		
KEY DECISION	No	Item No:	6
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	2 September 2013

1. PURPOSE

- 1.1 This report provides Members of the Pensions Investment Committee with a summary update on some of the key Government reforms to public sector pensions following the work of Lord Hutton.

2. RECOMMENDATION

- 2.1 Members of the Pensions Investment Committee are recommended to note the contents of the report and offers any views which could be incorporated into the consultation process.

3. BACKGROUND

- 3.1 Following Lord Hutton's report on Public Service Pensions in 2011, the Government introduced the Public Service Pensions Act 2013 (the "Act") to address several of the recommendations contained in the report.
- 3.2 The Government has issued three consultation papers covering structural reform of the Local Government Pension Scheme (LGPS), new governance proposals for the LGPS and detailed changes in the regulations for administering pension schemes and their benefits. These papers cover the following areas:
- a) A 'call for evidence' on the future structure of the LGPS
 - b) New Governance Arrangements
 - c) Detailed changes to the regulations to introduce the reformed pension scheme from 1st April 2014

4 A CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LGPS

- 4.1 In the spring, the Government announced that it wanted to undertake a 'root-and-branch review of the Local Government Pension Scheme's investment regulations as part of a 'call for evidence'. One of the key features of this review is whether or not there should be mergers among existing local government pension schemes.

4.2 On 16 May 2013, the Local Government Association (LGA) and the Department for Communities and Local Government (DCLG) held a roundtable event on the potential for increased co-operation within the LGPS, including the structural change to the existing funds. Attendees represented administering authorities, employers, trade unions and the actuarial profession. It is suggested that it would be more efficient to operate the LGPS as a smaller number of larger funds. In theory, the larger funds would have lower unit administration costs and would have better investment returns.

4.3 The following high level and secondary objectives for structural reform are being proposed:

High level objectives

1. Dealing with deficits
2. Improving investment returns

Secondary objectives

1. To reduce investment fees
2. To improve the flexibility of investment strategies
3. To provide for greater investment in infrastructure
4. To improve the cost effectiveness of administration
5. To provide access to higher quality staffing resources
6. To provide more in-house investment resource

4.4 The Government has invited responses to a number of questions posed in relation to LGPS reform and the objectives mentioned above. The analysis of the submissions will then inform a formal consultation on the options for change to be published by DCLG in the autumn. Responses are due back by 27 September 2013.

5 NEW GOVERNANCE ARRANGEMENT DISCUSSIONS PAPER

5.1 The Act includes several key provisions relating to the administration and governance of the new public service pension schemes, including the LGPS. In the case of the LGPS in England and Wales, these arrangements will apply to the new Scheme which comes into effect on 1 April 2014. The Government has issued a further 'discussion paper' to consult and to explore specific sections of the Act, which impact on the governance arrangements in the new Scheme. The following issues are being considered:

- Responsible authority
- Scheme manager
- Pension board
- Pension board information, and
- Scheme advisory board

5.2 The Act requires scheme managers (officers) to establish a scheme advisory board and local pensions board respectively (though the paper discusses the

option that they may be one and the same). The Pension Board would essentially be an oversight and scrutiny function to the operation of the Pension Fund and the decisions of the Pensions Investment Committee. The remit of the Pensions Board, as outlined in the Pension Act, would be:

- a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme;
- b) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;
- c) such other matters as the scheme regulations may specify.

5.3 It is expected that the Pension Board will include equal numbers of employer and pension scheme member representatives.

5.4 A response to this consultation is required by 30 August 2013.

6 LOCAL GOVERNMENT PENSION SCHEME 2014 REGULATIONS

6.1 A third consultation paper has been issued on the detailed regulation changes needed to implement the reformed pensions scheme, as agreed between Government and the unions following the review of public sector pensions by Lord Hutton. This consultation sought detailed and generally technical comments on the scheme administration by 2 August 2013 (with a relatively short 6 weeks consultation period). It is felt there are no fundamental principles involved.

7 FINANCIAL IMPLICATIONS

7.1 The comments of the Executive Director for Resources & Regeneration have been incorporated into this report.

8 LEGAL IMPLICATIONS

8.1 This report presents information on the pending changes resulting from the Public Services Pensions Act 2013. This includes several key provisions relating to the administration and governance of the new public service pension schemes established under section 1 of the Act. As these changes are due to come into effect from 1 April 2014, officers will make a full assessment of the existing governance arrangements and any potential changes needed, to ensure that the Authority is compliant with the new arrangements which come into place.

9 ENVIRONMENTAL IMPLICATIONS

9.1 There are no specific environmental implications directly arising from this report.

10 HUMAN RESOURCES IMPLICATIONS

10.1 There are no specific human resources implications directly arising from this report.

11 CRIME AND DISORDER IMPLICATIONS

- 11.1 There are no specific crime and disorder implications directly arising from this report.

12 EQUALITY IMPLICATIONS

- 12.1 There are no specific equalities implications directly arising from this report.

13 CONCLUSION

- 13.1 The LGPS is facing major changes which come in to effect from 1 April 2014. Members of the Pensions Investment Committee and officers need to be sufficiently prepared for the smooth implementation of these changes. Officers will continue to keep Members updated on the results of any consultations, exercises and any emergent issues on LGPS reform over the coming months.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact

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