



# AGENDA

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## PENSIONS INVESTMENT COMMITTEE

**Date: TUESDAY, 9 SEPTEMBER 2014 at 7.00 pm**

**Committee Room 2  
Civic Suite  
Catford Road  
London SE6 4RU**

**Enquiries to: Kevin Flaherty 0208 314 9327  
Telephone: 020 8314 9327 (direct line)  
Email: kevin.flaherty@lewisham.gov.uk**

### COUNCILLORS

Councillor Mark Ingleby (Chair)  
Councillor John Muldoon (Vice Chair)  
Councillor Chris Best  
Councillor Kevin Bonavia  
Councillor Maja Hilton  
Councillor Simon Hooks  
Councillor Paul Maslin  
Councillor Joan Reid

### Independent Advisor

William Marshall, Hymans Robertson

### Officers

David Austin, Head of Corporate Resources  
Adeola Odeneye Principal Accountant  
Strategic Finance  
Janet Senior, Executive Director for  
Resources & Regeneration  
Helen Glass, Principal Lawyer  
Carol Eldridge, Group Manager - Pensions  
& Payroll

**Members are summoned to attend this meeting**

**Barry Quirk  
Chief Executive  
Laurence House  
Catford  
London SE6 4RU  
Date: Thursday, 28 August 2014**



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.	Minutes .	1
2.	Declarations of interest	2 - 4
3.	Custodian Northern Trust Training/Presentation A presentation will be made by Northern Trust.	
4.	Investec Presentation	5 - 25
5.	VW Presentation 2014	26 - 45
6.	Quarterly performance	46 - 62
7.	Assets Allocation and Rebalancing Paper	63 - 69
8.	Pension Board Report	70 - 89
9.	Review Training Schedule	90 - 91



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# Agenda Item 1

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>Report Title</b>	<b>MINUTES</b>		
<b>Key Decision</b>			<b>Item No. 1</b>
<b>Ward</b>			
<b>Contributors</b>	<b>CHIEF EXECUTIVE</b>		
<b>Class</b>	<b>Part 1</b>	<b>Date: 9 September 2014</b>	

## **Recommendation**

That the Minutes of that part of the meeting of the Committee, which was open to the press and public, held on 26 June 2014 be confirmed and signed.

# Agenda Item 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision	No	Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 9 SEPTEMBER 2014

## 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 inhabitants 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 you 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 31<sup>st</sup> March 2014**

**Tuesday 9th September 2014  
Lynn Coventry**

## Agenda

Section 1 – Market Environment

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Section 2 – Total Fund Performance versus Local Authority Average

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Appendix

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# Section 1

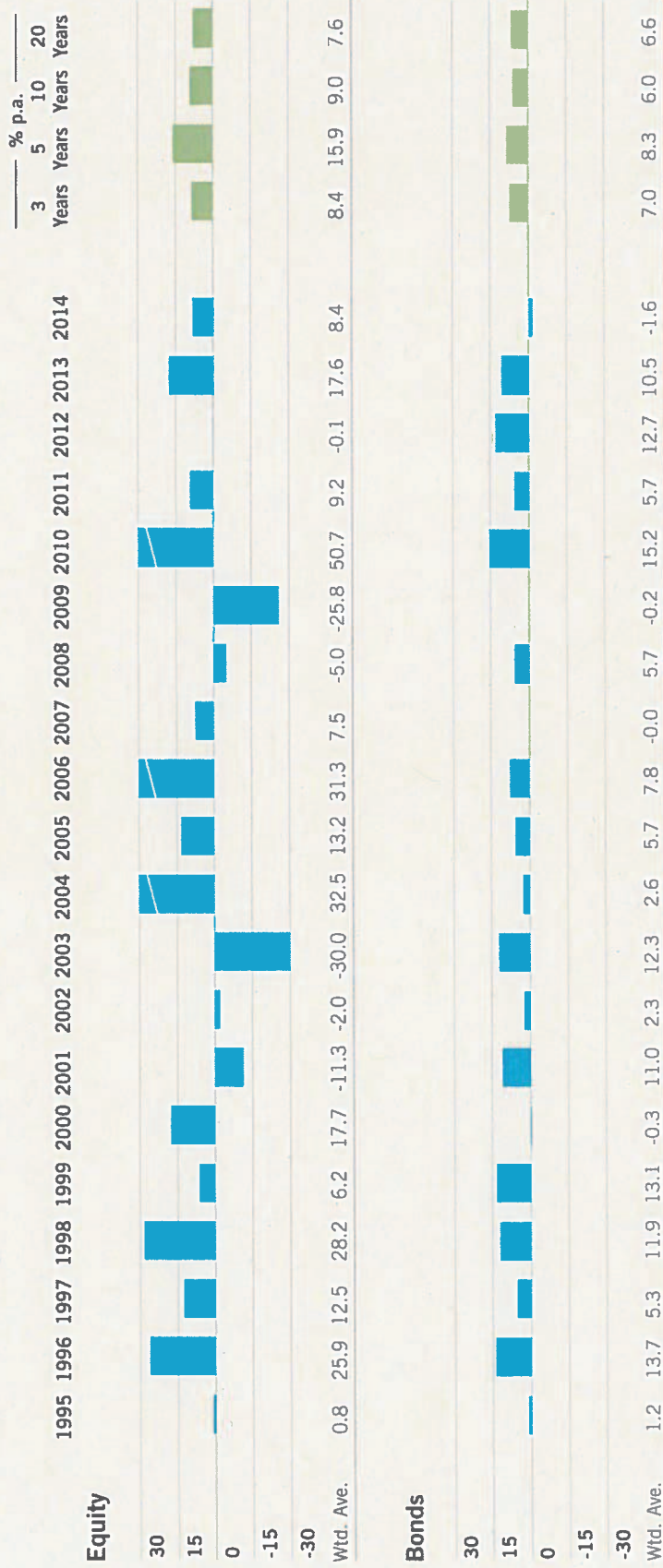
## Market Environment

# 2013/2014 Returns (%)



Source: State Street Investment Analytics, 2014  
 Past performance is not a reliable indicator of future results.

## Annual Returns (%)\*



\* Source: State Street Investment Analytics, 2014.

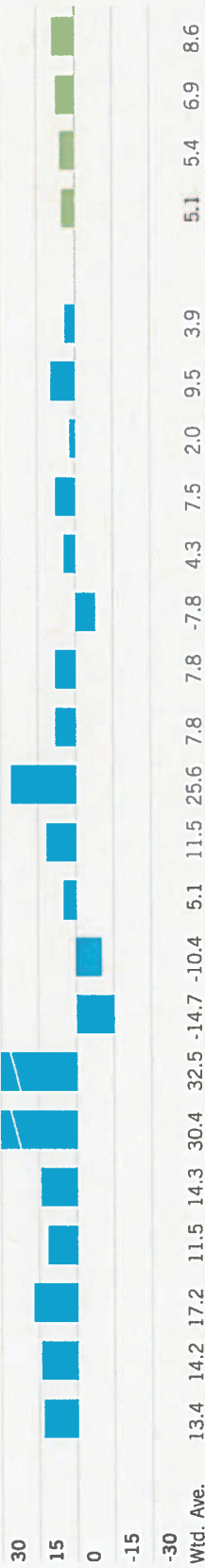
Past performance is not a reliable indicator of future results.

# Annual Returns (%)\*

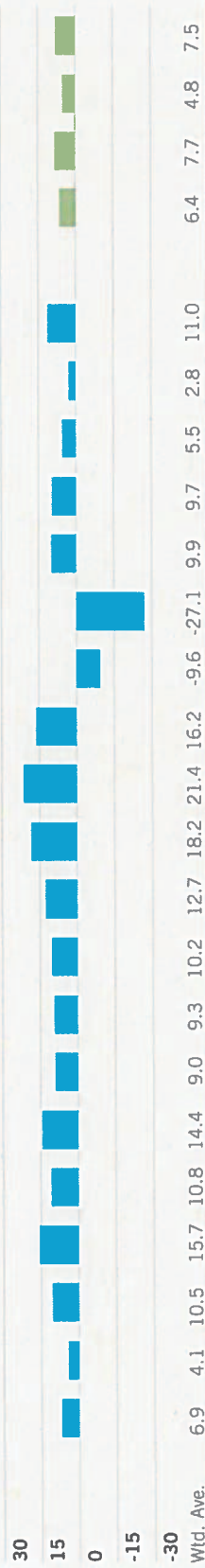
% p.a.  
 3 5 10 20  
 Years Years Years Years

1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

## Alternatives



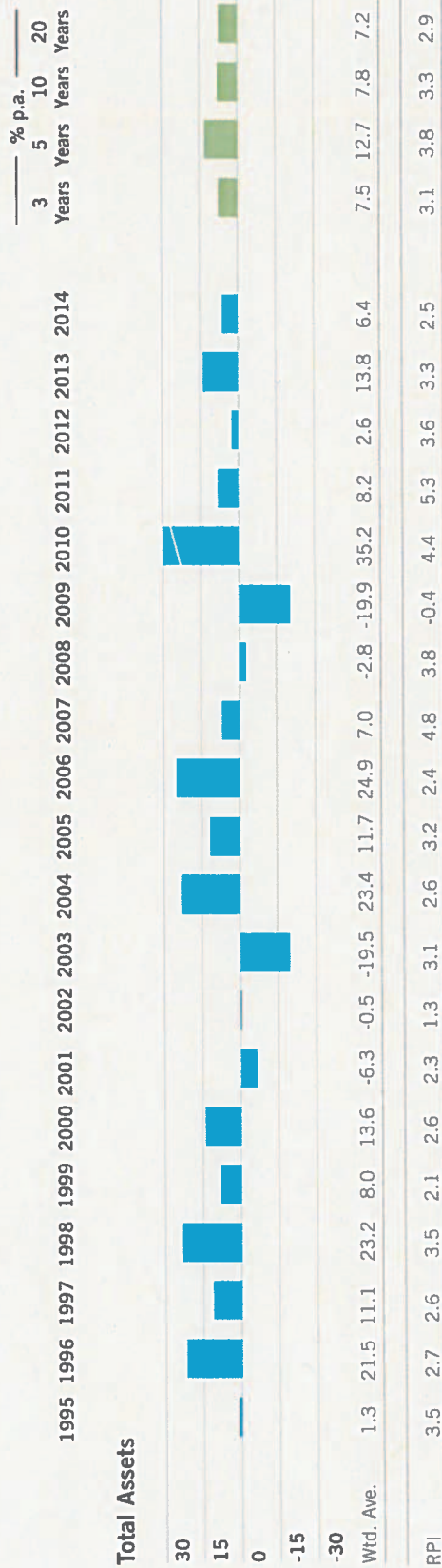
## Property



\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

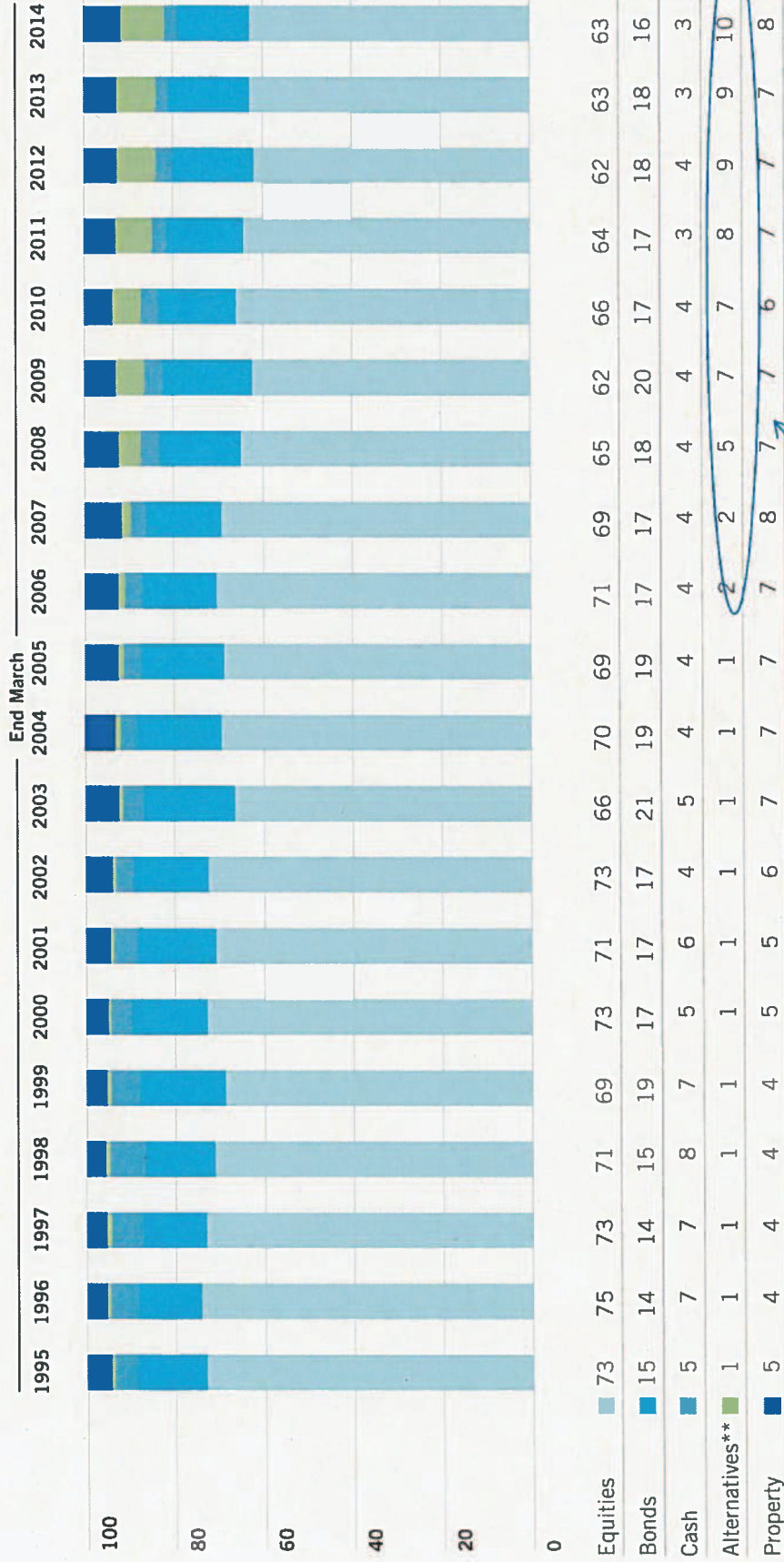
## Annual Returns (%)\*



\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

## Longer Term Asset Allocation (%)\*

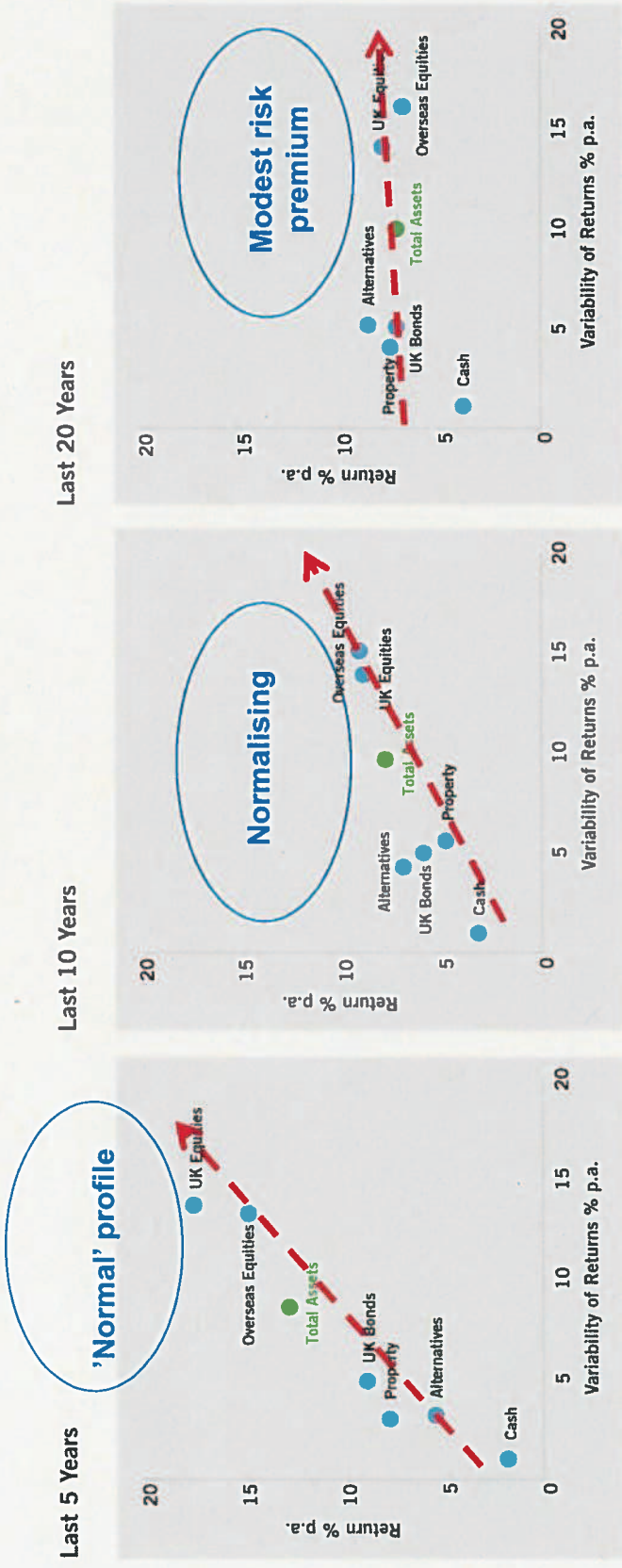


\* Source: State Street Investment Analytics, 2014.

\*\* Includes Pooled Multi-Asset from March 2010.

Recent growth

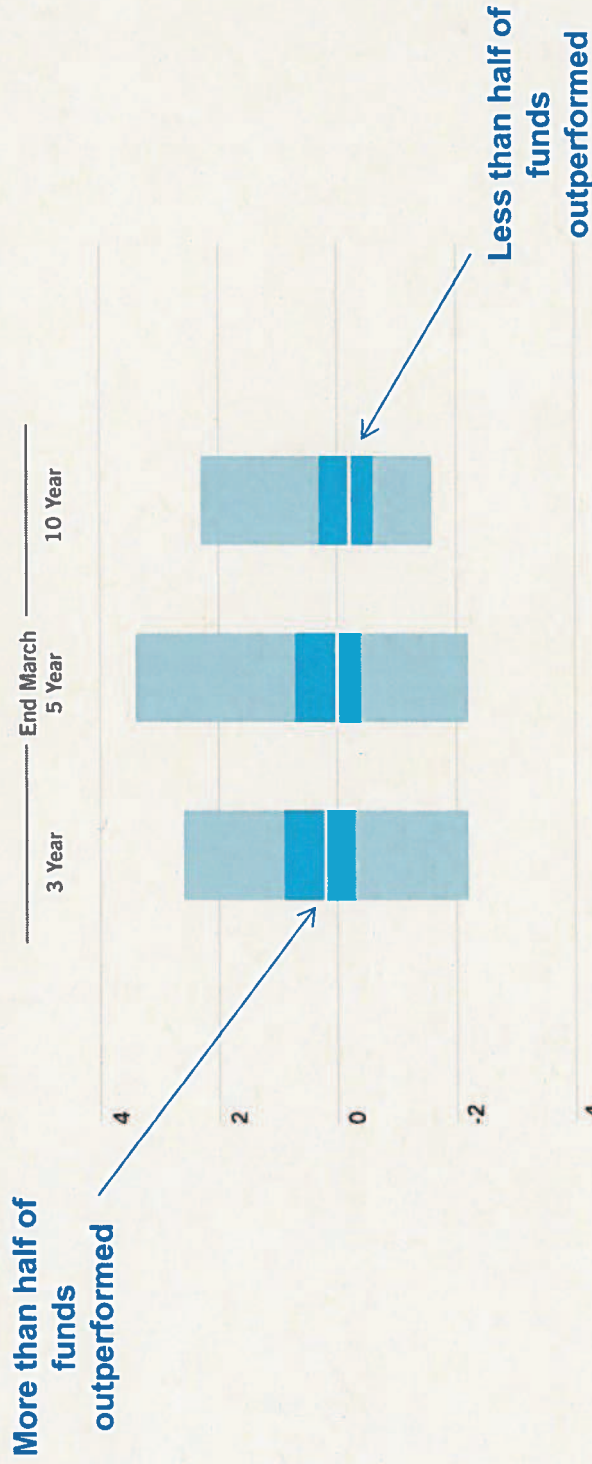
# Long Term Risk and Return\*



\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

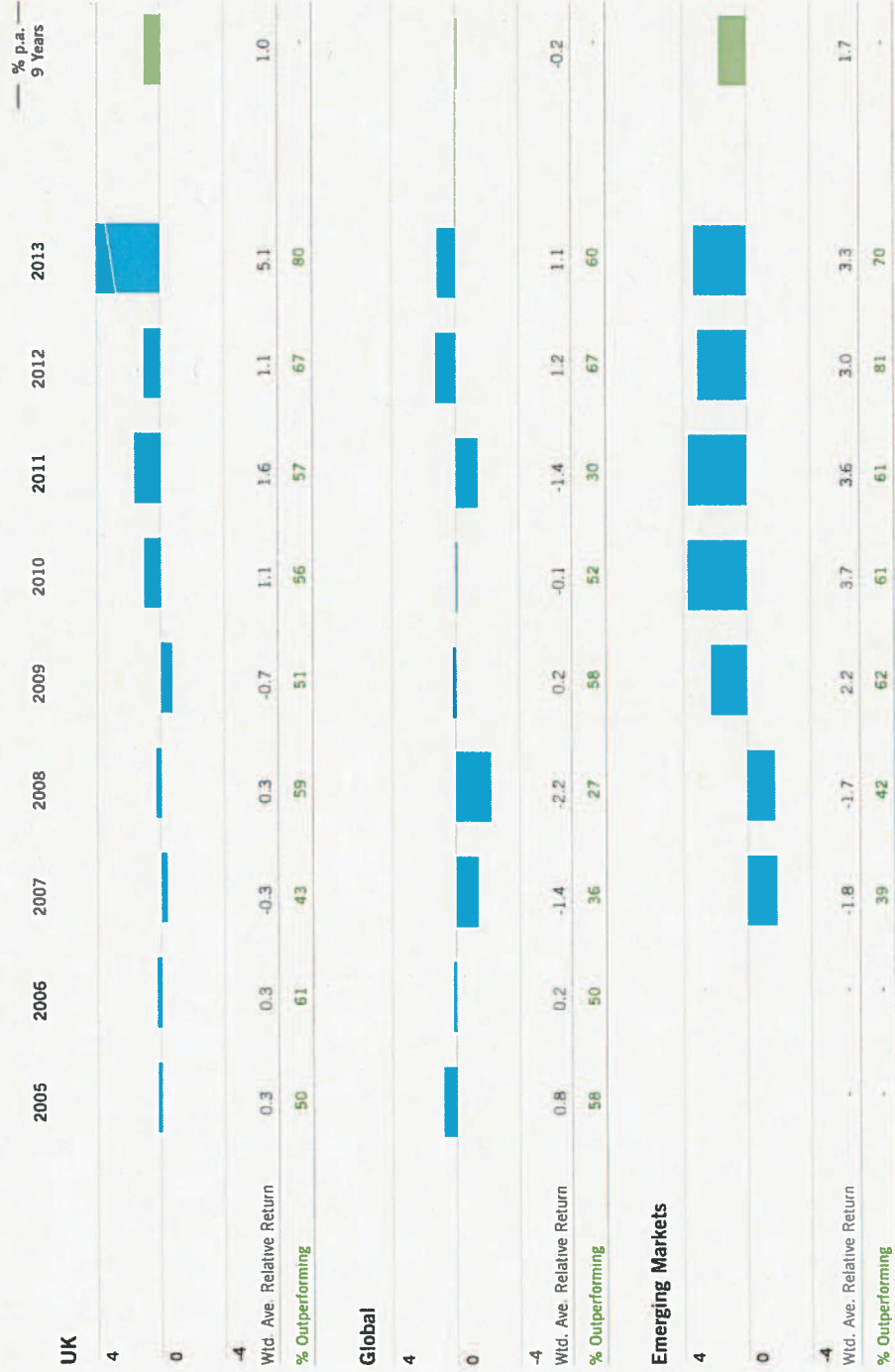
# Performance Relative to Benchmark\*



\* Source: State Street Investment Analytics, 2014. Past performance is not a reliable indicator of future results.



# Active Equity Managers Have Had a Relatively Strong Run



## Section 2

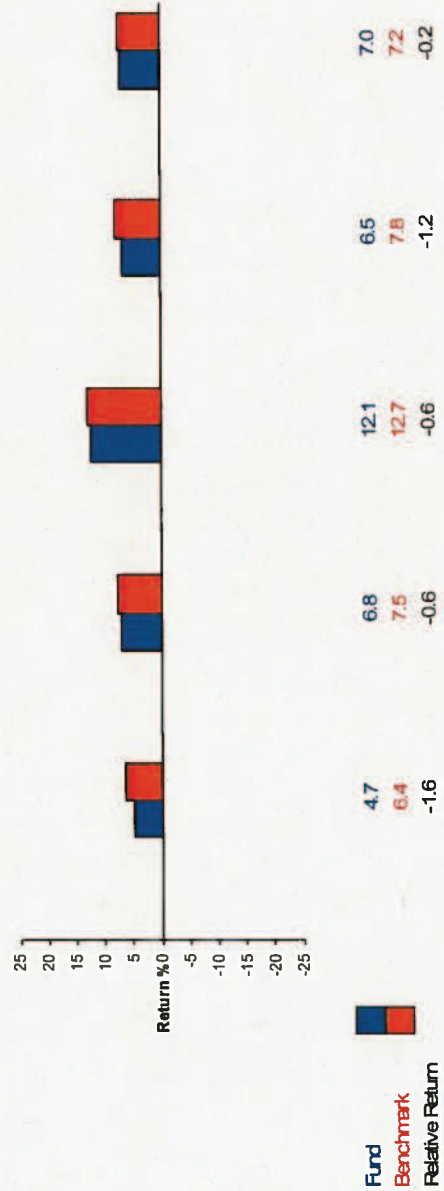
### Total Fund Performance versus Local Authority Average Return

## Summary of Performance

Fund Value	Values GBP'000
Value at 29/03/2013	857,808
Transactions	-3,306
Capital Gain/Loss	41,886
Income	5,073
Value at 31/03/2014	896,388

### Fund Returns

12 Months	3 Years % pa	5 Years % pa	10 Years % pa	20 Years % pa
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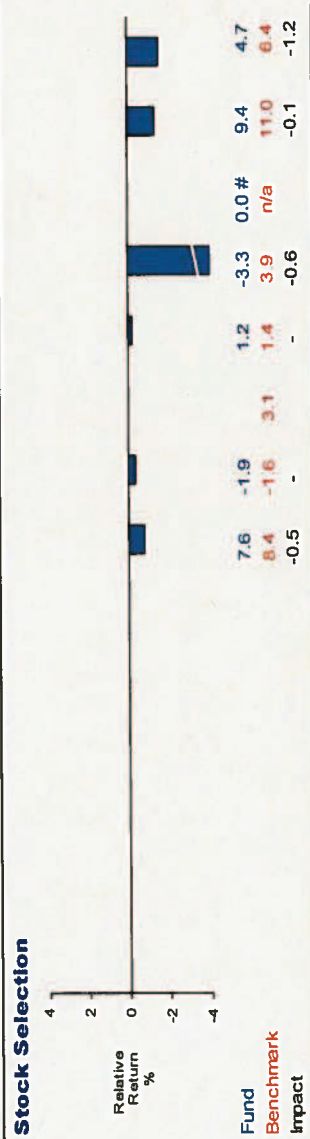
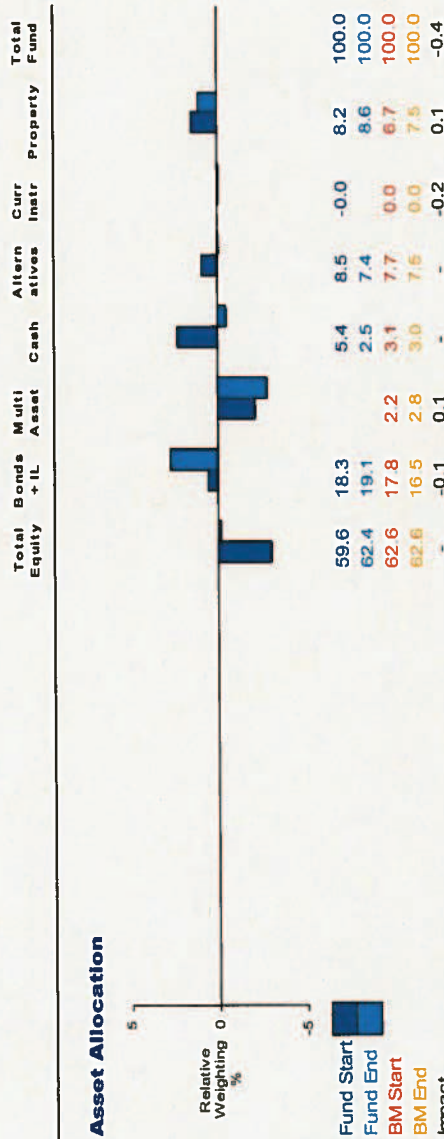


# Latest Year Attribution

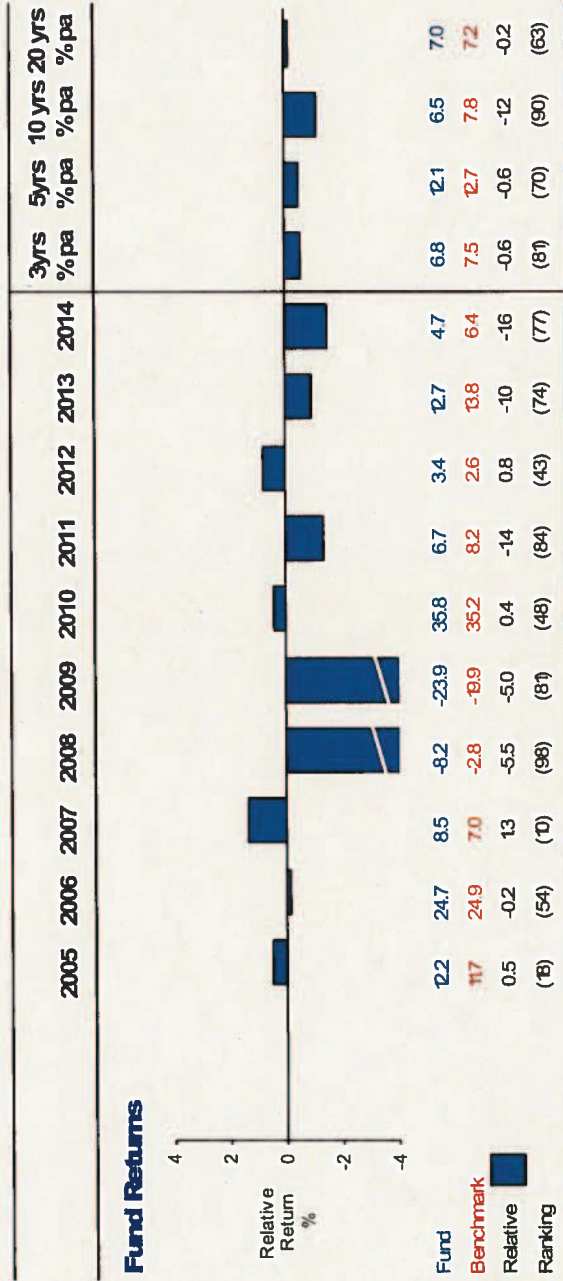
## Summary

Fund Return	4.7
Benchmark Return	6.4
Relative Performance	-1.6
attributable to:	
Asset Allocation	-0.4
Stock Selection	-1.2

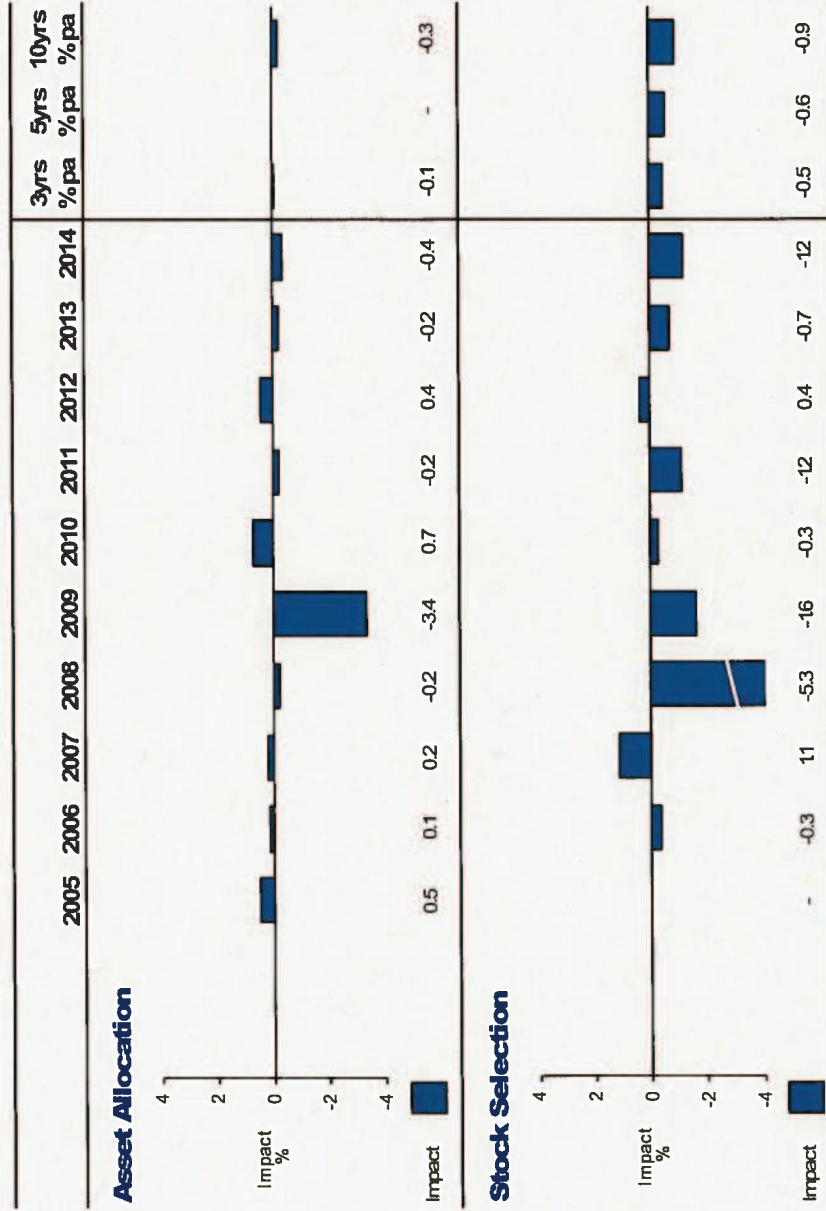
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below



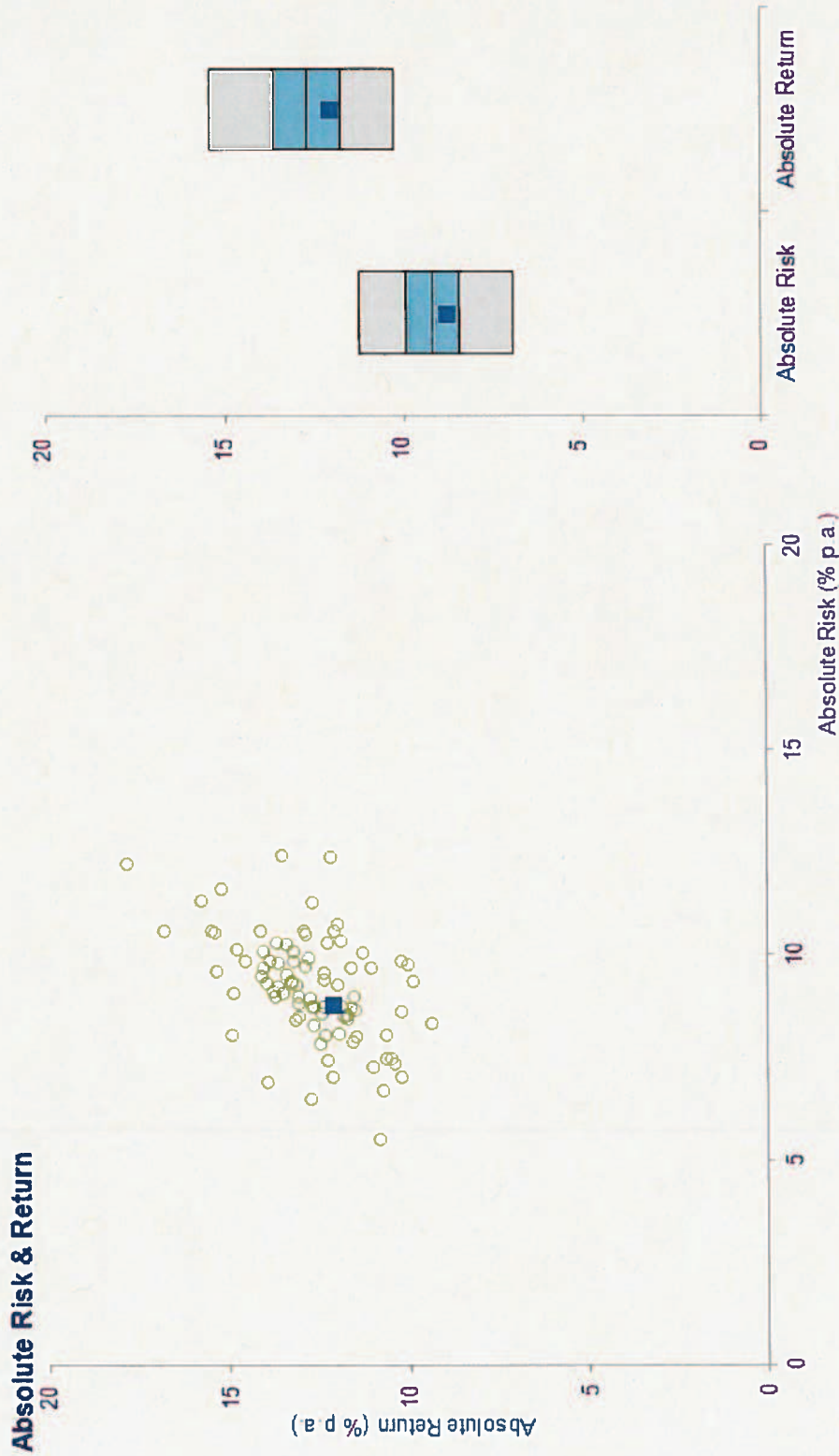
# Longer Term Performance



# Longer Term Attribution



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



■ Your Fund.

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## Overall Conclusions

- *The Fund has an absolute return of 4.7% over the latest year, which was 1.6% behind the Local Authority Average return of 6.4%. This was due mainly to below average returns in Equities and Alternatives.*
- *Below average performance continues over the longer term. The impact of the underperformance during 2008 and 2009 was particularly unfavourable.*
- *The return of 7.0% p.a. over the last 20 years compares with the Local Authority Average return of 7.2% p.a. This was 4.0% p.a. above the UK RPI index return of 2.9% p.a.*



# Appendix

## Summary of Returns and Rankings

Return %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	3yrs % pa	5yrs % pa	10yrs % pa
Total Equity	2.9 (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)	7.6 (65)	8.1 (64)	14.7 (87)	7.4 (95)
UK Equities	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)	8.8 (73)	8.1 (93)	15.5 (91)	6.6 (97)
O/S Equities	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)	7.1 (41)	8.0 (31)	14.3 (80)	8.4 (70)
Total Bonds	4.7 (83)	8.0 (38)	-0.3 (61)	2.5 (55)	-0.8 (57)	32.1 (9)	9.0 (4)	12.5 (36)	11.2 (43)	-0.8 (61)	7.5 (43)	12.3 (19)	7.4 (1)
UK Bonds	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)	-0.8 (77)	7.5 (51)	12.3 (11)	6.7 (11)
Alternatives	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)	-3.3 (89)	0.8 (90)	2.2 (84)	2.2 (84)
Private Eq		2.3 (59)	16.8 (48)	0.7 (55)	-11.8 (79)	10.4 (47)	7.0 (33)	17.6 (10)	5.5 (48)	5.5 (48)	9.9 (20)	5.2 (64)	5.2 (64)
Total Other						11.7 (31)	-6.2 (81)	0.8 (68)	-11.2 (82)				
Property	19.5 (28)	25.5 (9)	20.9 (9)	-5.1 (97)	-31.0 (71)	3.6 (84)	6.4 (86)	5.4 (42)	12 (57)	9.4 (78)	5.3 (56)	5.2 (71)	3.2 (73)
UK Property	19.5 (28)	25.5 (9)	20.9 (9)	-5.1 (97)	-31.0 (64)	2.9 (93)	6.4 (90)	5.4 (49)	12 (57)	9.4 (87)	5.3 (67)	5.0 (78)	3.1 (79)
Total Assets	12.2 (16)	24.7 (54)	8.5 (10)	-8.2 (98)	-23.9 (81)	35.8 (48)	6.7 (84)	3.4 (43)	12.7 (74)	4.7 (77)	6.8 (81)	12.1 (70)	6.5 (90)

# not invested in this area for the entire period

## Asset Class Performance\*

	% of Asset Class		% p.a. Return			
	At end 2012/13	At end 2013/14	3 Yrs	5 Yrs	10 Yrs	20 Yrs
<b>Equities</b>	<b>100</b>	<b>100</b>				
UK Equities	38.8	38.2	10.3	17.5	8.9	7.9
Overseas Equities	52.8	52.9	6.9	14.8	9.1	6.9
North America	18.5	18.5	12.1	17.2	8.0	8.1
Continental Europe	12.8	13.6	7.9	15.0	9.8	8.8
Japan	5.4	4.9	5.5	9.3	3.7	1.0
Pacific ex Japan	5.7	5.1	2.3	14.9	12.6	7.0
Emerging Markets	9.1	9.2	-1.2	12.6	11.5	-
Global	8.4	8.9	8.1	14.8	-	-
<b>Bonds</b>	<b>100</b>	<b>100</b>				
UK	58.5	57.4	7.3	8.8	5.9	7.2
Index-Linked	23.1	22.3	8.4	8.6	6.9	7.3
Overseas Bonds	12.9	15.2	3.5	5.3	5.1	5.2
Pooled	5.5	5.0	5.0	9.2	-	-
<b>Alternatives</b>	<b>100</b>	<b>100</b>				
Private Equity	55.5	55.5	7.5	6.0	-	-
Hedge Funds	30.5	29.2	3.6	5.6	-	-
Other Alternatives	13.9	15.4	0.9	3.7	-	-

\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

# London Borough of Lewisham Annual Performance Review

Period Ending 31<sup>st</sup> March 2014

Tuesday 9th September 2014

Lynn Coventry

# Agenda

Section 1 – Market Environment

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Section 2 – Total Fund Performance versus Local Authority Average

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Appendix

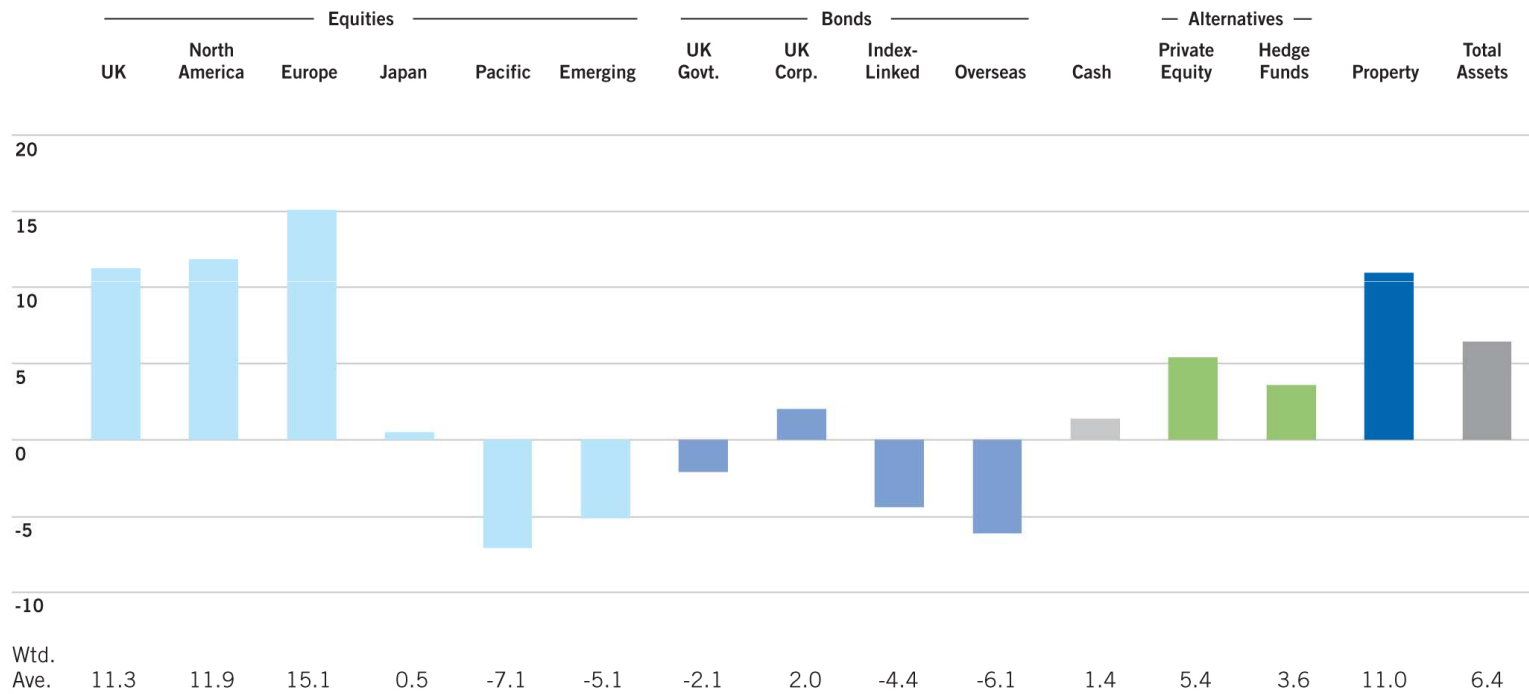
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# Section 1

## Market Environment

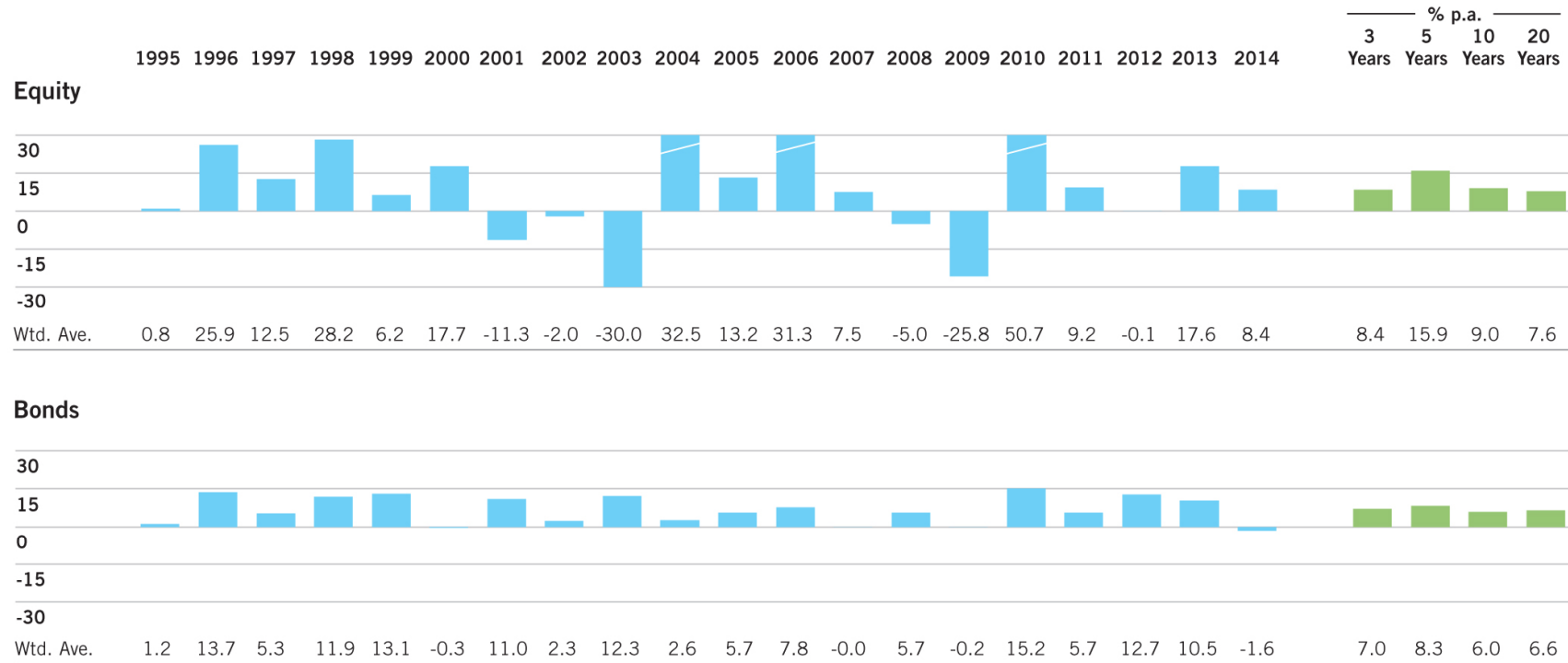
# 2013/2014 Returns (%)



Source: State Street Investment Analytics, 2014.

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# Annual Returns (%)\*

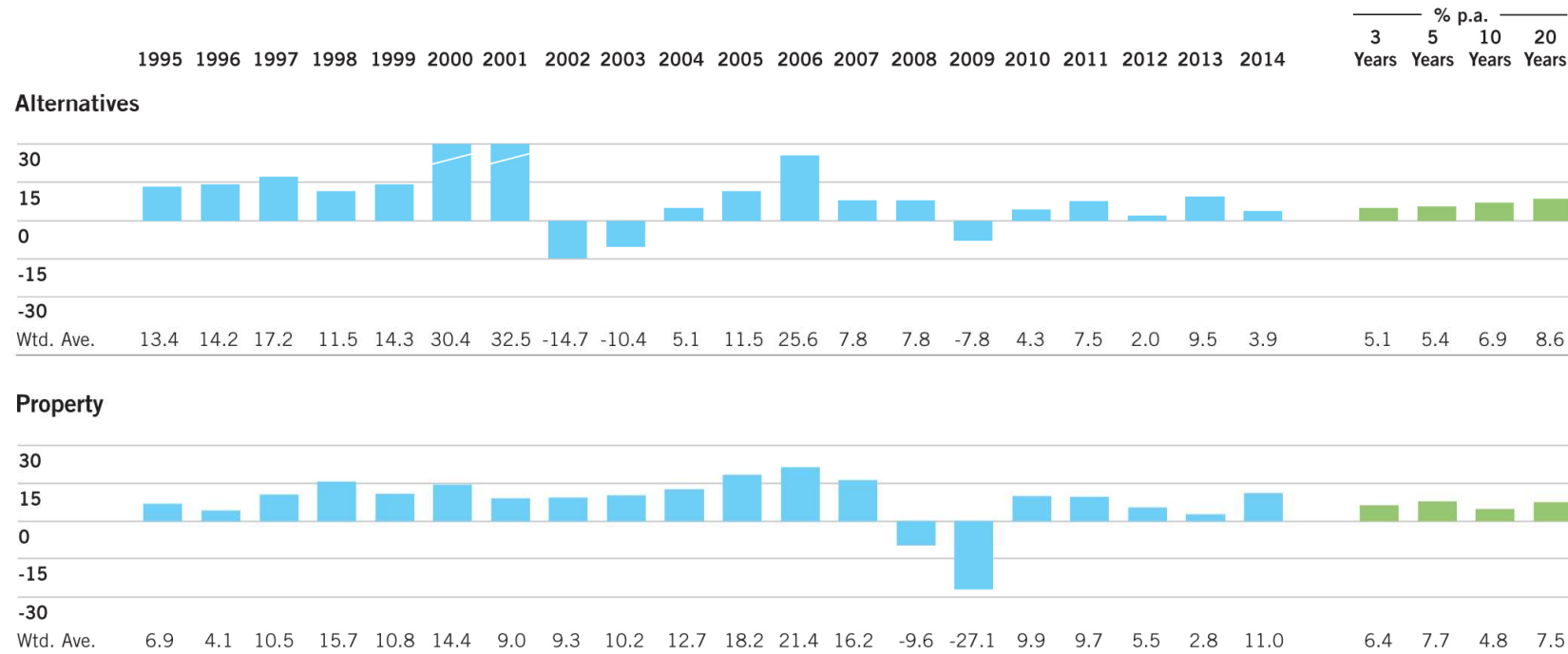


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# Annual Returns (%)\*

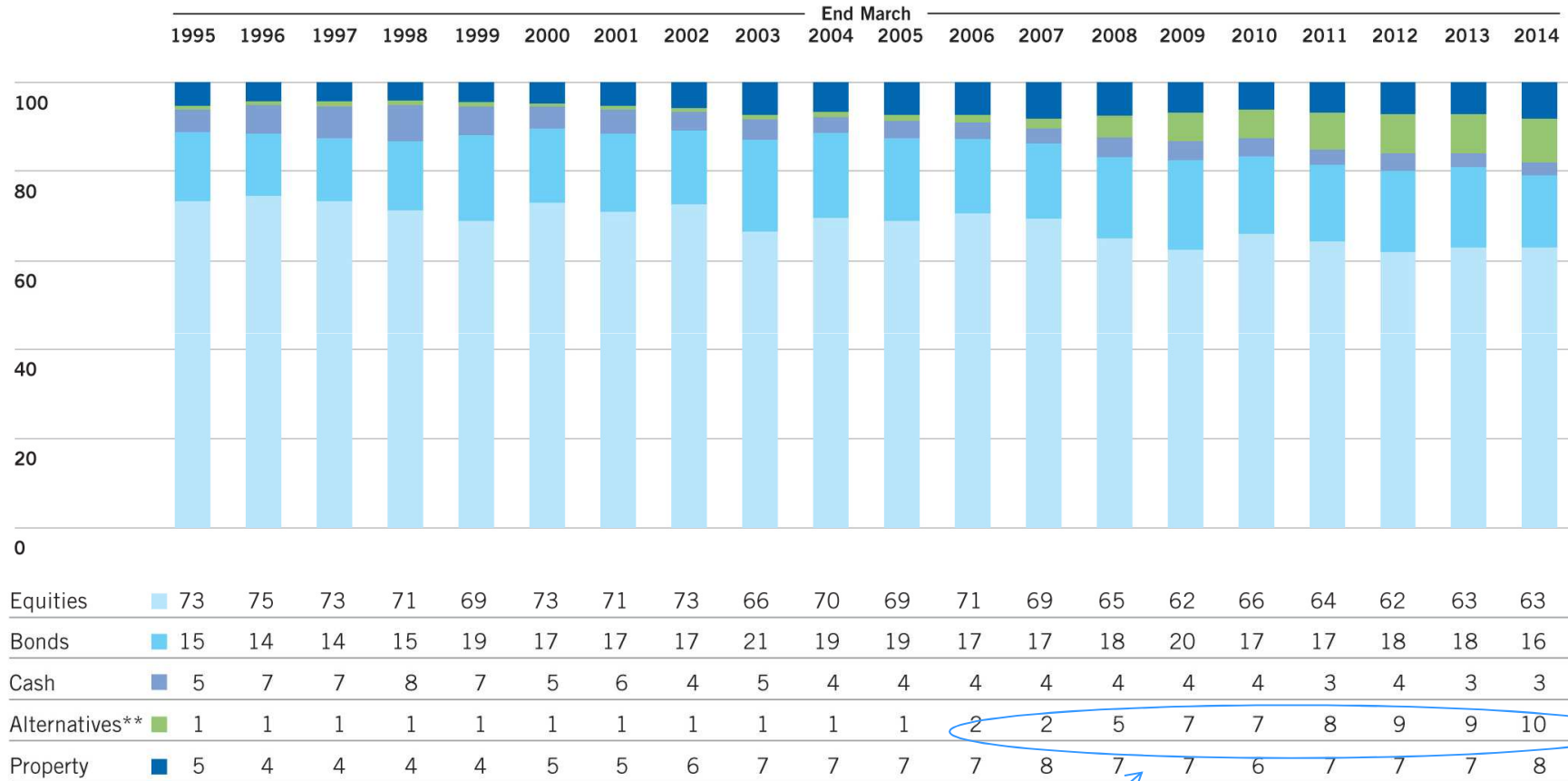


\* Source: State Street Investment Analytics, 2014.

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# Longer Term Asset Allocation (%)\*



\* Source: State Street Investment Analytics, 2014.

\*\* Includes Pooled Multi-Asset from March 2010.

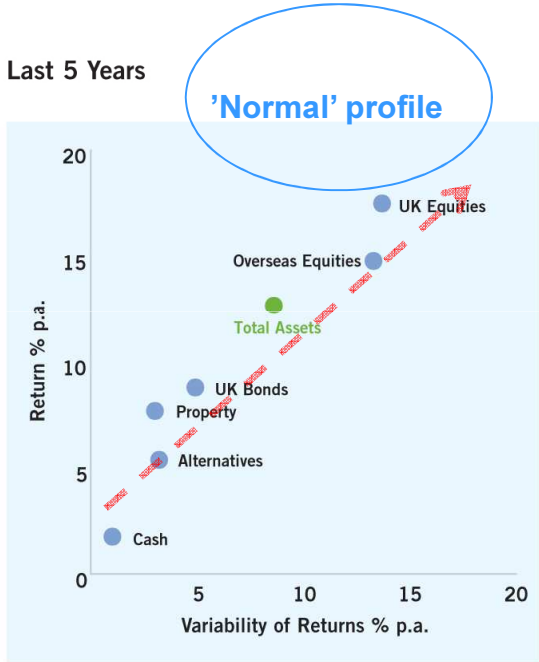
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Recent growth

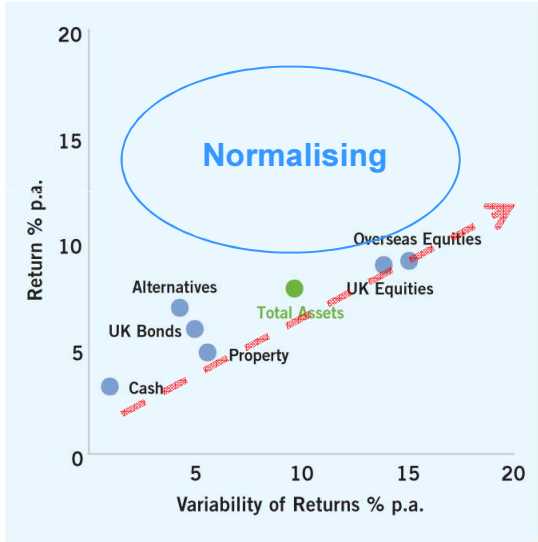
# Long Term Risk and Return\*

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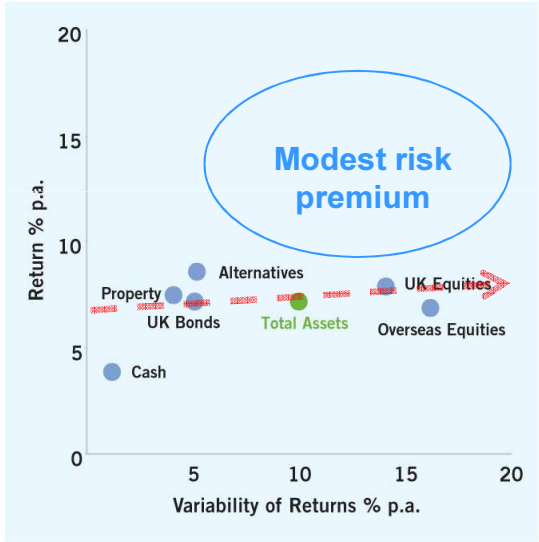
Last 5 Years



Last 10 Years



Last 20 Years

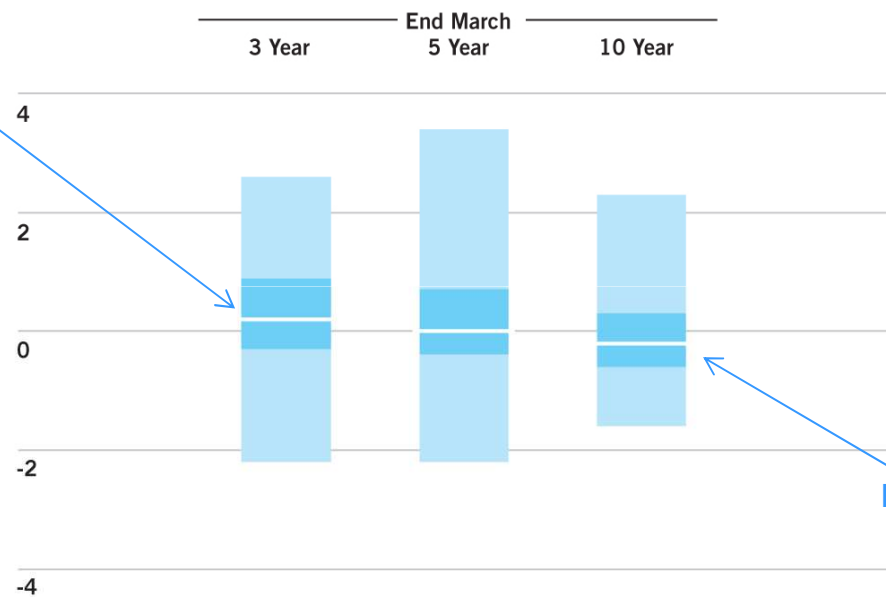


\* Source: State Street Investment Analytics, 2014.

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# Performance Relative to Benchmark\*

More than half of funds outperformed

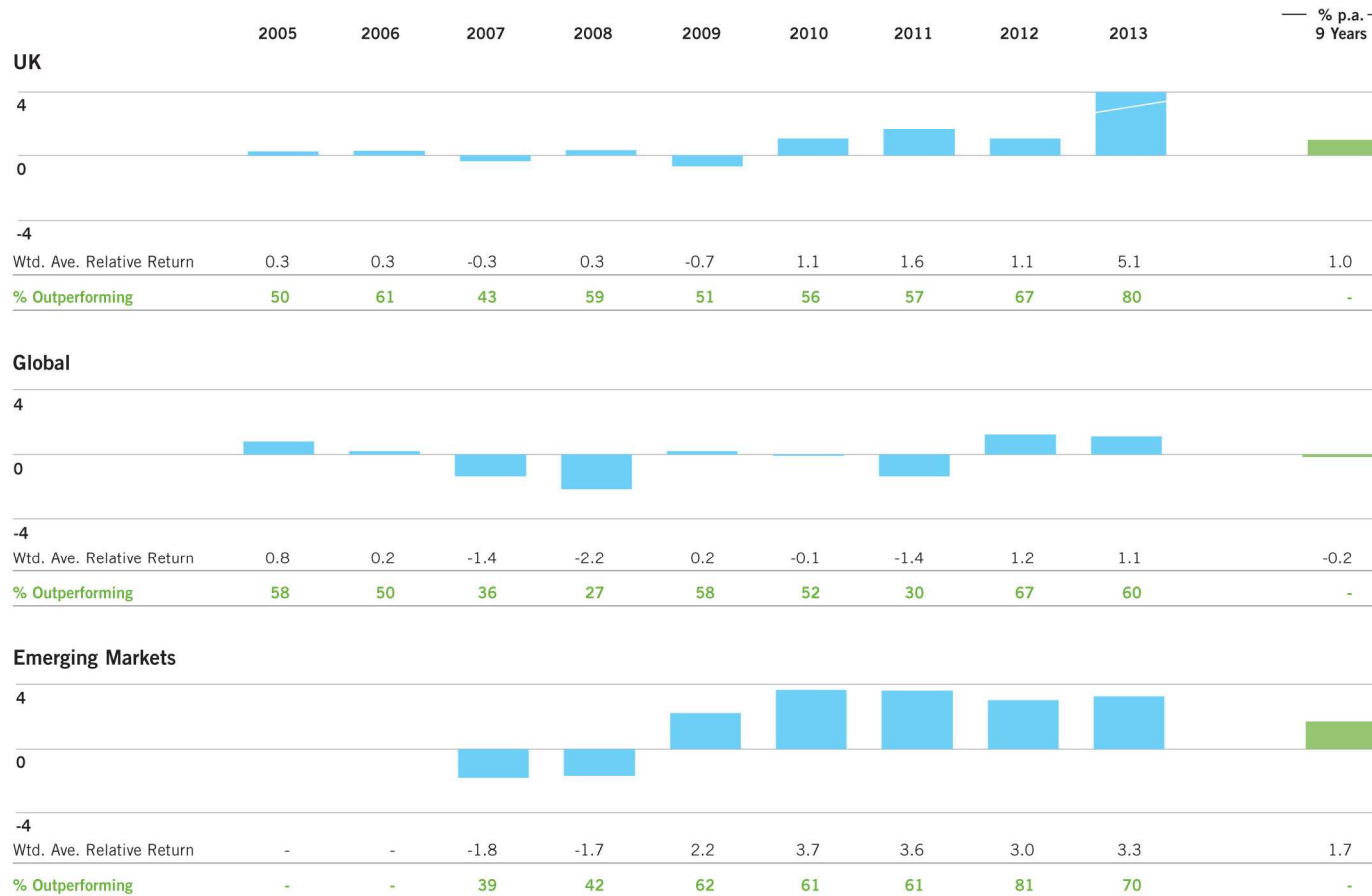


Less than half of funds outperformed

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## Active Equity Managers Have Had a Relatively Strong Run



## Section 2

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### Total Fund Performance versus Local Authority Average Return

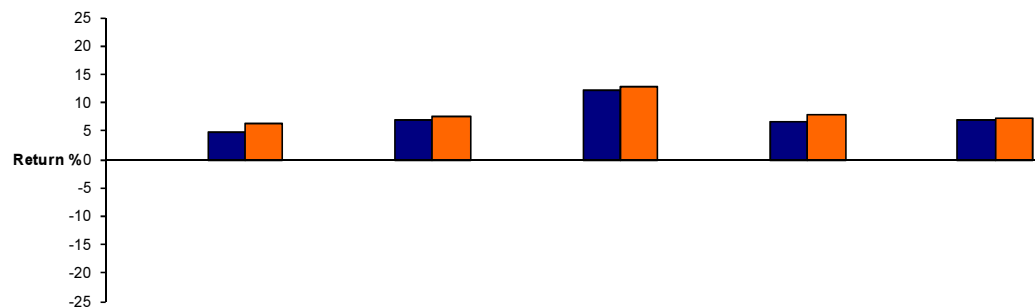
## Summary of Performance

### Fund Value

Values GBP'000	
Value at 29/03/2013	857,808
Transactions	-3,306
Capital Gain/Loss	41,886
Income	5,073
Value at 31/03/2014	896,388

### Fund Returns

	12 Months	3 Years % pa	5 Years % pa	10 Years % pa	20 Years % pa
--	-----------	--------------	--------------	---------------	---------------



Fund	4.7	6.8	12.1	6.5	7.0
Benchmark	6.4	7.5	12.7	7.8	7.2
Relative Return	-1.6	-0.6	-0.6	-1.2	-0.2



# Latest Year Attribution

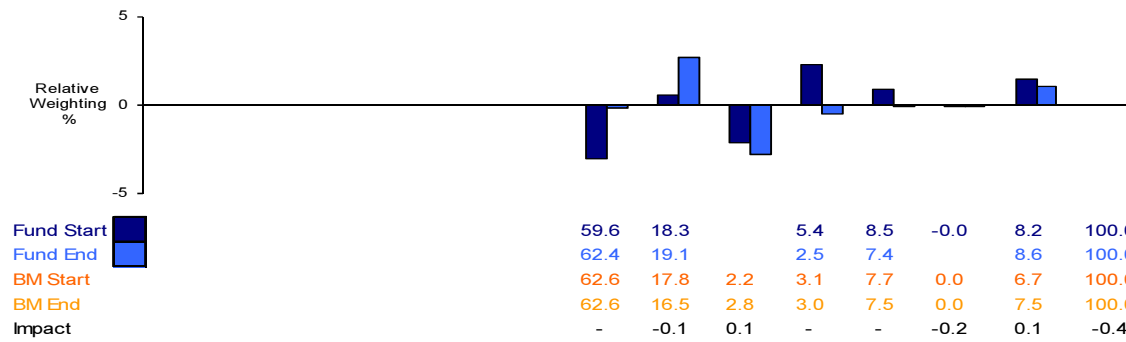
## Summary

Fund Return	4.7
Benchmark Return	6.4
Relative Performance	-1.6
<b>attributable to:</b>	
Asset Allocation	-0.4
Stock Selection	-1.2

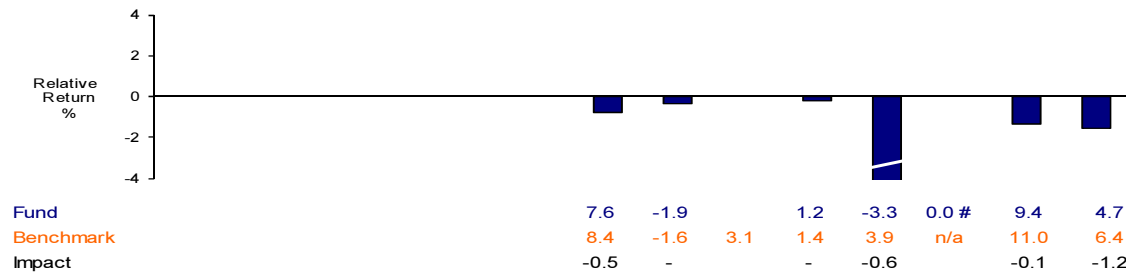
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below

	Total Equity	Bonds + IL	Multi Asset	Cash	Alternatives	Curr Instr	Property	Total Fund
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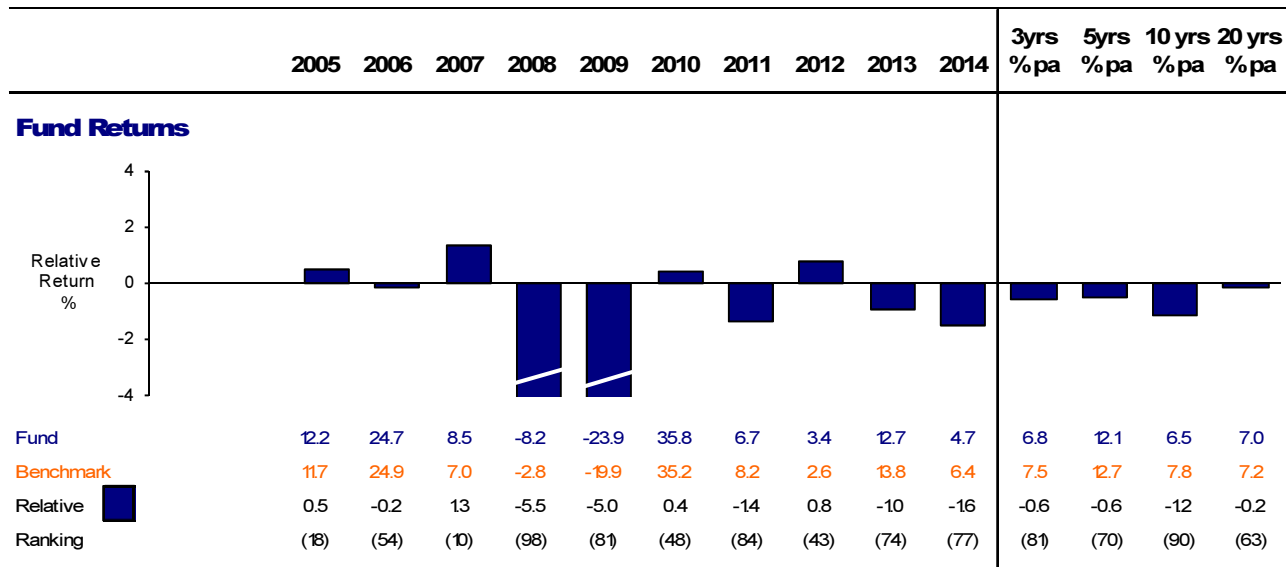
## Asset Allocation



## Stock Selection



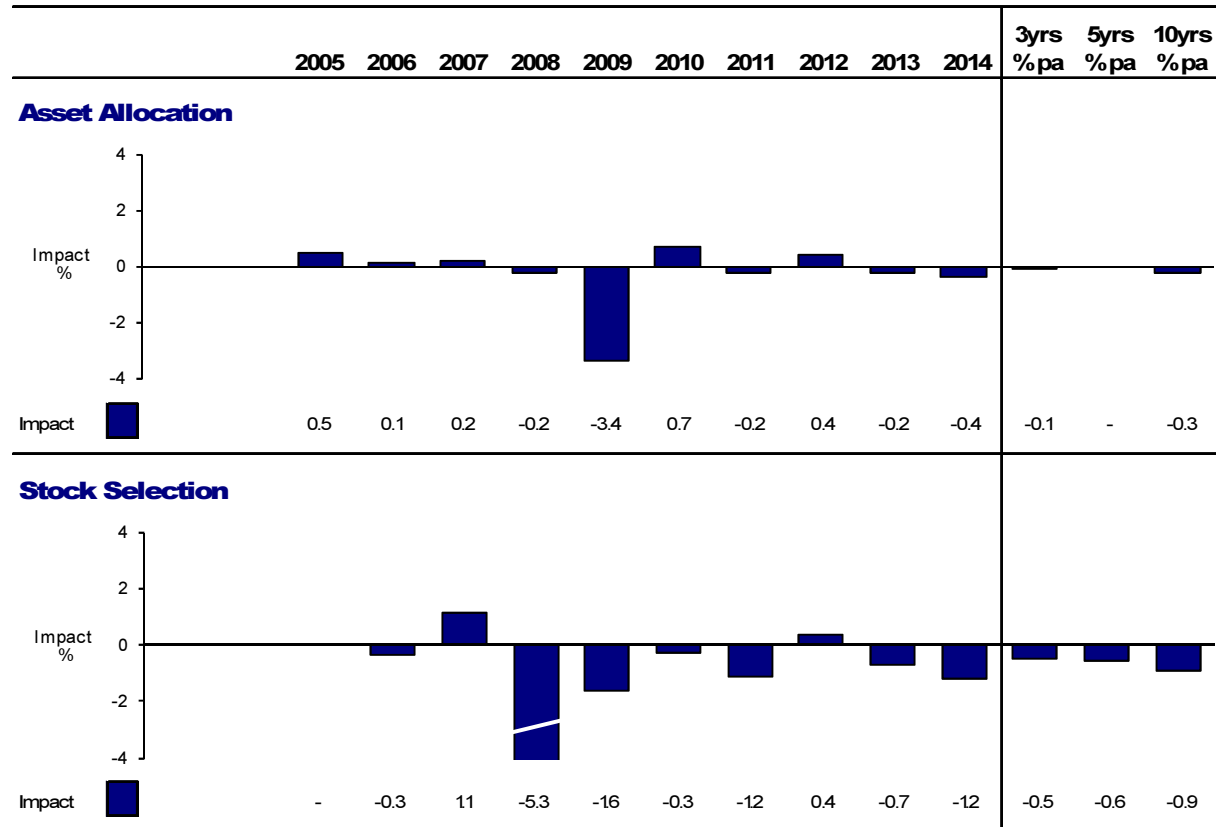
# Longer Term Performance



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# Longer Term Attribution

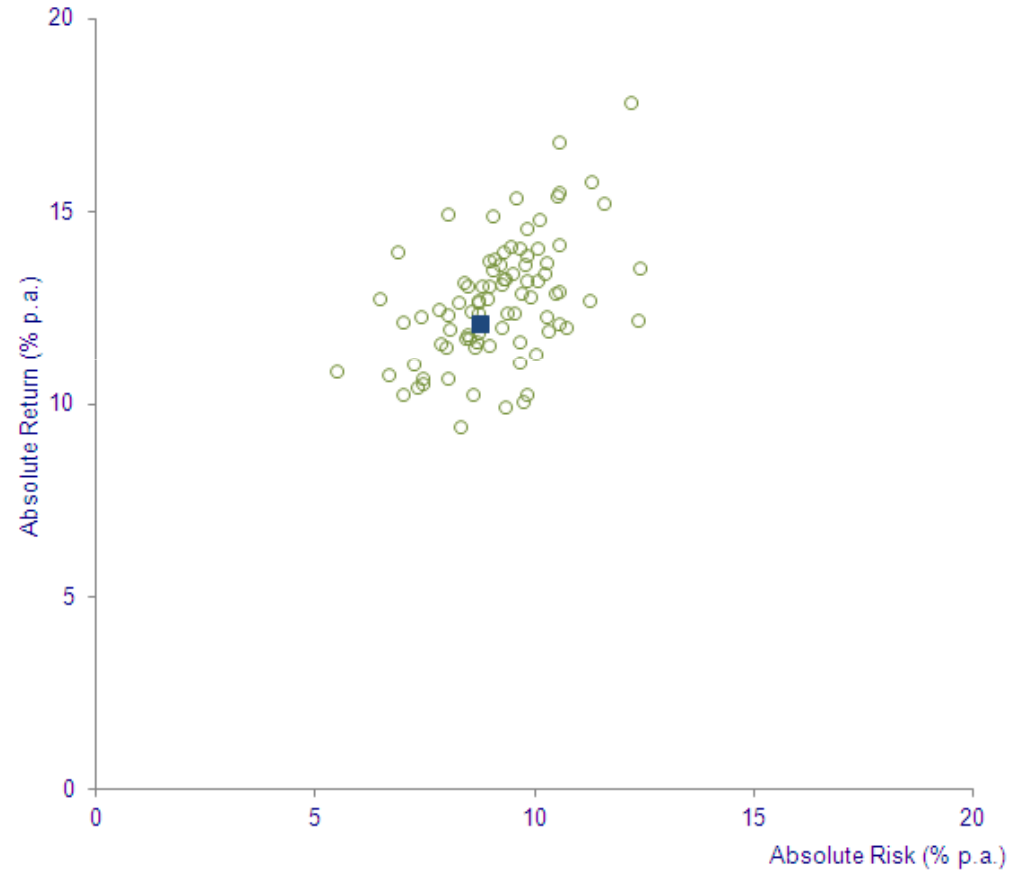
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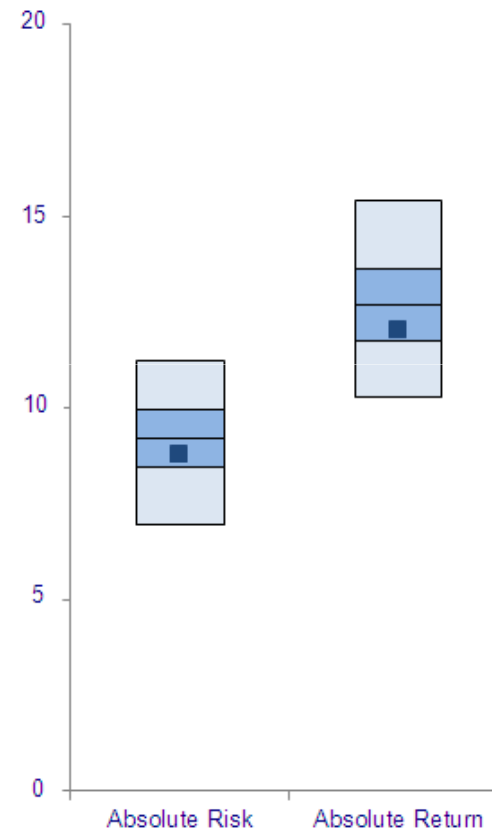
# Risk Adjusted Return Analysis – Five Years % p.a.

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Absolute Risk & Return



■ Your Fund.



## Overall Conclusions

- *The Fund has an absolute return of 4.7% over the latest year, which was 1.6% behind the Local Authority Average return of 6.4%. This was due mainly to below average returns in Equities and Alternatives.*
- *Below average performance continues over the longer term. The impact of the underperformance during 2008 and 2009 was particularly unfavourable.*
- *The return of 7.0% p.a. over the last 20 years compares with the Local Authority Average return of 7.2% p.a. This was 4.0% p.a. above the UK RPI index return of 2.9% p.a.*

## Summary of Returns and Rankings

Return %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	3yrs % pa	5yrs % pa	10yrs % pa
<i>Total Equity</i>	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)	7.6 (65)	8.1 (64)	11.7 (87)	7.4 (95)
<i>UK Equities</i>	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)	8.8 (73)	8.1 (93)	15.5 (91)	6.6 (97)
<i>Q/S Equities</i>	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)	7.1 (41)	8.0 (31)	11.3 (60)	8.4 (70)
<i>Total Bonds</i>	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)	-0.8 (61)	7.5 (43)	12.3 (13)	7.4 (1)
<i>UK Bonds</i>	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)	-0.8 (77)	7.5 (51)	12.3 (11)	6.7 (11)
<i>Alternatives</i>	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)	-3.3 (89)	0.8 (90)	2.2 (84)	
<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)	5.5 (48)	9.9 (20)	5.2 (64)	
<i>Total Other</i>							11.7 (31)	-6.2 (81)	0.8 (68)	-11.2 (82)	-5.6 (80)		
<i>Property</i>	19.5 (28)	25.5 (8)	20.9 (8)	-15.1 (97)	-31.0 (71)	3.6 (84)	6.4 (86)	5.4 (42)	12 (57)	9.4 (78)	5.3 (56)	5.2 (71)	3.2 (73)
<i>UK Property</i>	19.5 (28)	25.5 (8)	20.9 (8)	-15.1 (97)	-31.0 (64)	2.9 (93)	6.4 (90)	5.4 (49)	12 (57)	9.4 (87)	5.3 (67)	5.0 (78)	3.1 (79)
<i>Total Assets</i>	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)	4.7 (77)	6.8 (81)	12.1 (70)	6.5 (90)

# not invested in this area for the entire period

## Asset Class Performance\*

	% of Asset Class		% p.a. Return			
	At end 2012/13	At end 2013/14	3 Yrs	5 Yrs	10 Yrs	20 Yrs
<b>Equities</b>	<b>100</b>	<b>100</b>				
UK Equities	38.8	38.2	10.3	17.5	8.9	7.9
Overseas Equities	52.8	52.9	6.9	14.8	9.1	6.9
North America	18.5	18.5	12.1	17.2	8.0	8.1
Continental Europe	12.8	13.6	7.9	15.0	9.8	8.8
Japan	5.4	4.9	5.5	9.3	3.7	1.0
Pacific ex Japan	5.7	5.1	2.3	14.9	12.6	7.0
Emerging Markets	9.1	9.2	-1.2	12.6	11.5	-
Global	8.4	8.9	8.1	14.8	-	-
<b>Bonds</b>	<b>100</b>	<b>100</b>				
UK	58.5	57.4	7.3	8.8	5.9	7.2
Index-Linked	23.1	22.3	8.4	8.6	6.9	7.3
Overseas Bonds	12.9	15.2	3.5	5.3	5.1	5.2
Pooled	5.5	5.0	5.0	9.2	-	-
<b>Alternatives</b>	<b>100</b>	<b>100</b>				
Private Equity	55.5	55.5	7.5	6.0	-	-
Hedge Funds	30.5	29.2	3.6	5.6	-	-
Other Alternatives	13.9	15.4	0.9	3.7	-	-

\* Source: State Street Investment Analytics, 2014.

Past performance is not a reliable indicator of future results.

# Agenda Item 6

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Performance for the quarter end 30 June 2014		
KEY DECISION	No	Item No:	6
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	9 September 2014

## 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 2014.

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 2014 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 £928m for the quarter ended 30 June 2014. The Fund's value has increased by £23m over the quarter, with the Fund's actively managed mandates being the main enhancers to performance. The Fund outperformed its benchmark by 0.46%, returning 2.7%.



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 4 (Mar 2014) £m	*Asset Value Qtr 1 (Jun 2014) £m	Actual Proportion %	Target Proportion %
Blackrock	Passive Multi-asset	369.5	378.0	40.7	39.0
Harbourvest	Venture Capital	39.1	40.6	4.4	3.0
Investec	Commodities	33.6	35.2	3.8	5.0
M&G	UK Financing Fund	14.0	14.1	1.5	1.0
Schroders	Property	76.1	80.0	8.6	10.0
UBS	Passive Multi-asset	371.0	379.8	40.9	39.0
Cash		1.3	0.24	0.0	3.0
<b>Total Fund</b>		<b>904.8</b>	<b>928.2</b>	<b>100.0</b>	<b>100.0</b>

\*Asset bid values based on custodian valuation

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

**Table 2: Managers Performance Relative to Target**

Manager	Quarter Ended 30 Jun 14	12 Months to 30 Jun 2014	Since Inception
Blackrock – Passive Multi-asset	0.0%	-0.1%	-0.2%
Harbourvest – Venture Capital	2.3%	-4.2%	-0.2%
Investec – Commodities	7.3%	2.9%	1.8%
M&G – UK Financing Fund	1.2%	4.3%	3.1%
Schroders – Property	0.3%	-1.6%	-0.9%
UBS – Passive Multi-asset	0.0%	-0.1%	0.0%

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 for the quarter from the Fund's active managers was good. All of the mandates performed relatively well, Investec (Commodities) significantly outperformed their benchmark.

## 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:

David Austin, Head of Corporate Resources on 020 831 49114.

# London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2014

Prepared By:

Scott Donaldson - Partner  
Albert Chen - Investment Consultant  
Jordan Irvine - Investment Analyst

For and on behalf of Hymans Robertson LLP  
August 2014

## Contents

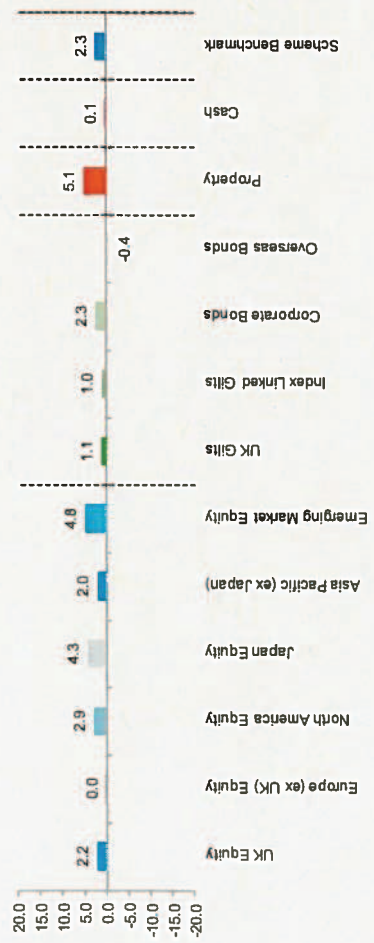
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in 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 2014

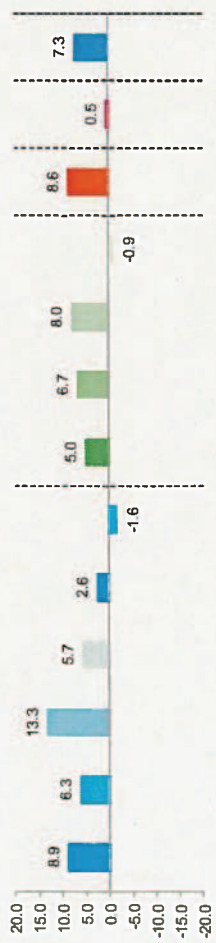
3 Months (%)



12 Months (%)



3 Years (% p.a.)



## Historic Returns - Comment

In general, equity markets were buoyant over the quarter. Economic signals were mixed and included the publication of disappointing economic growth figures for the US and Eurozone during the three months to end March. The OECD, IMF and World Bank cut their forecasts for global economic growth in 2014, but still expect a higher level of activity compared with last year. In contrast, there were examples of positive news, with signs of modest economic growth in some Eurozone countries and strong manufacturing and jobs data from the US.

Short-term interest rates in the UK and US were unchanged during the quarter. In June, the European Central Bank (ECB) reduced interest rates, from 0.25% to 0.15%, against a background of low economic growth and concerns over a deflationary spiral. This is in contrast to central bank policy in other major economies. There was speculation that the Bank of England may soon raise short-term rates on the basis of low unemployment, reasonable growth and encouraging forward-looking manufacturing data. The US central bank, the Federal Reserve, continues to taper its QE programme (expected to finish in October), although it did dismiss the possibility of using a rate rise to curb the recent growth in asset values.

Conflicts and political tensions caused volatility in energy markets. Oil prices hit a nine month high, reflecting concerns that global supply might be affected by the re-intensification of conflict in Iraq.

Key events during the quarter were:

### Global Economy

- The OECD, IMF and World Bank reduced their forecasts for global economic growth for 2014;
- Growth forecasts for the 28 nation European Union were revised modestly upwards by the European Commission, from 1.5% to 1.6%;
- The ECB was the first major central bank to introduce a negative deposit rate (the rate which commercial banks receive on their deposits at the Bank), cutting the rate from 0% to -0.1%;
- UK unemployment rate fell to a 5 year low.

### Equities

- The best performing sectors relative to the FTSE All World Index were Oil & Gas (+6.4%) and Utilities (+2.4%); the worst were Consumer Services (-1.8%) and Financials (-1.7%);
- Merger and acquisition activity dominated headlines. Sizeable international deals were attempted, but not always concluded – most notably the unsuccessful hostile takeover bid for AstraZeneca from pharmaceutical giant Pfizer.

### Bonds and Currencies

- Gilt yields fell marginally (prices rose) at medium & long maturities, but rose at the 'short end';
- Sterling hit a six year high against the dollar, reflecting speculation that the Bank of England will raise interest rates ahead of other central banks.



# Portfolio Summary

## Valuation Summary

Asset Class	Values (£m)			Actual Proportion %	Target Proportion %	Difference %
	Q1 2014	Q2 2014	Q2 2014			
Global Equity	569.1	583.1	62.7	62.4	0.4	
Bonds	171.6	174.9	18.8	18.6	0.2	
Property	77.8	81.4	8.8	10.0	-1.2	
Private Equity	39.2	40.7	4.4	3.0	1.4	
Trustee Bank Account	1.7	0.3	0.0	0.0	0.0	
UK Financing Fund	14.0	14.1	1.5	1.0	0.5	
Commodities	33.7	35.2	3.8	5.0	-1.2	
<b>Total Inc. Trustee Bank Account</b>	<b>907.0</b>	<b>929.7</b>	<b>100.0</b>	<b>100.0</b>		

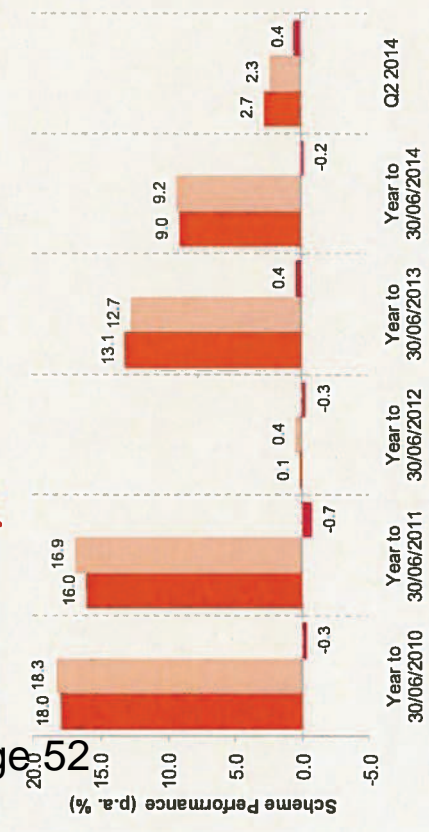
## Comments

The value of the Fund's assets rose by £22.7m over the quarter to £929.7m as at 30 June 2014.

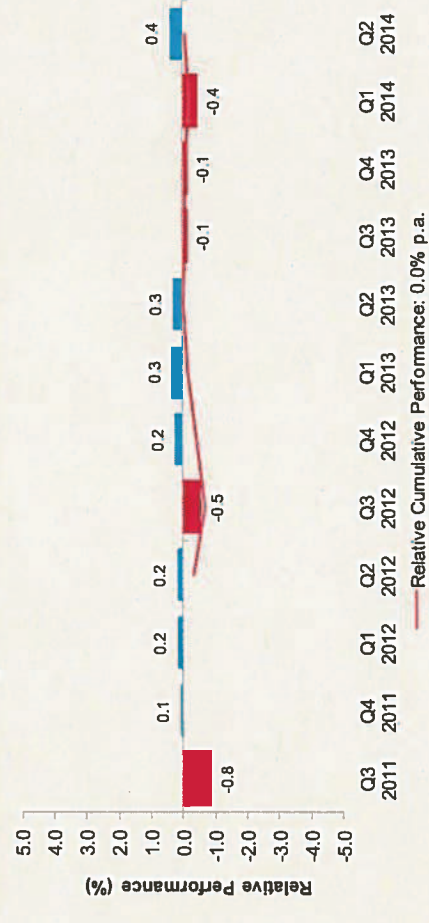
The Fund returned 2.7% over the quarter, outperforming its benchmark return by 0.4%, with positive relative performance from all of the Fund's actively managed mandates. Of these, the Investec commodities mandate was the major contributor. As expected, the passive multi-asset mandates with BlackRock and UBS performed broadly in line with their composite benchmarks for the quarter.

Note: The Fund's target allocations have been updated to reflect the previous re-investment (end Q3 2013) of the temporary cash allocation of 3.0% into the BlackRock and UBS passive multi-asset mandates.

## Performance Summary

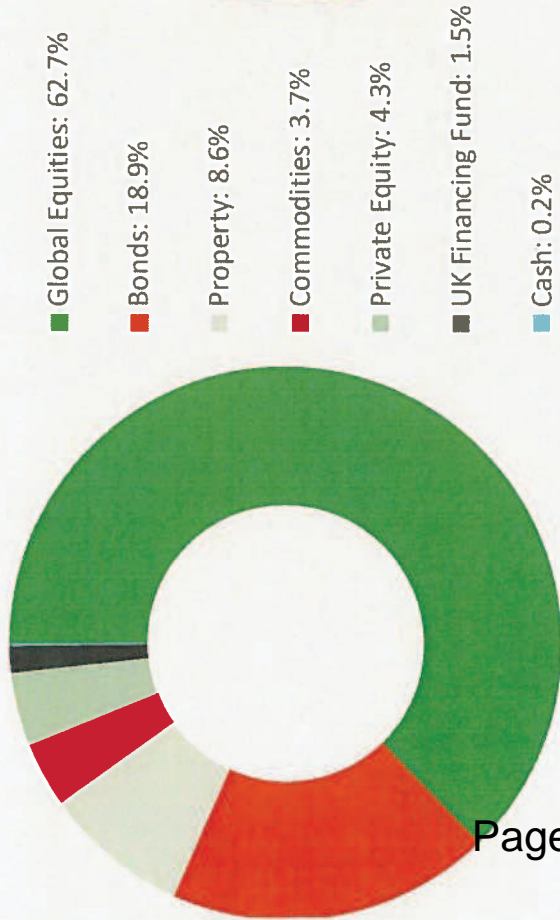


## Relative Quarterly and Relative Cumulative Performance

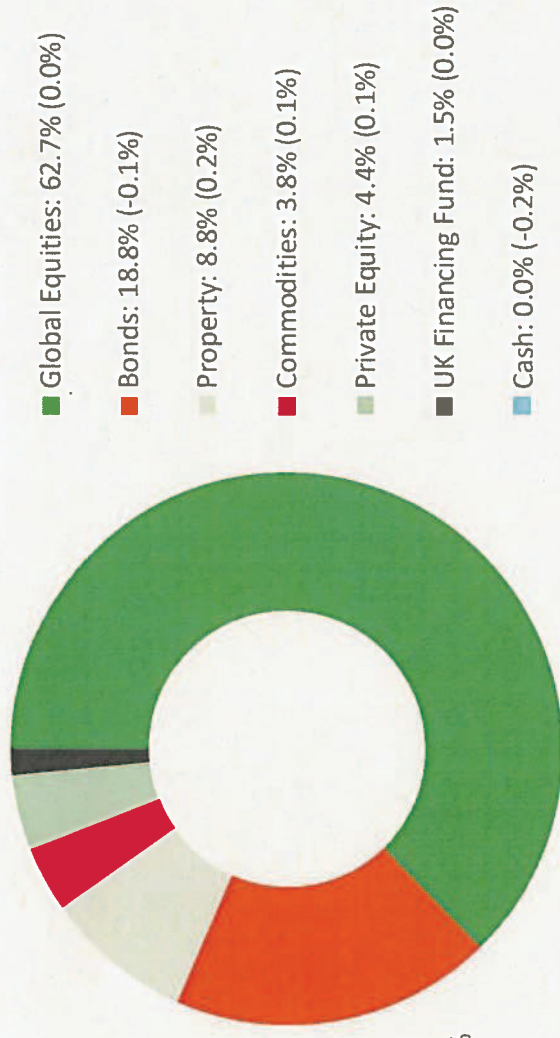


# Fund Asset Allocation

Asset allocation as at 31 March 2014



Asset allocation as at 30 June 2014



## Comments

The charts above show the Fund's asset allocation as at 31 March 2014 and 30 June 2014. The figures in brackets as at 30 June 2014 represent the net changes over the quarter.

There were no significant changes to the Fund's asset allocation over the quarter, with minor changes in the allocations attributable to relative market movements and the relative performance of the Fund's mandates.

## Manager Summary

### Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2014	Q2 2014			
BlackRock - Passive Multi-asset	370.0	378.6	40.7	40.5	0.2
UBS - Passive Multi-asset	370.7	379.4	40.8	40.5	0.3
Schroders - Property	77.8	81.4	8.8	10.0	-1.2
Investec - Commodities	33.7	35.2	3.8	5.0	-1.2
Harbourvest - Venture Capital	39.2	40.7	4.4	3.0	1.4
M&G - UK Companies Financing Fund	14.0	14.1	1.5	1.0	0.5
Cash	1.7	0.3	0.0	0.0	0.0
<b>Total</b>	<b>907.0</b>	<b>929.7</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

### 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	0.75% p.a. above benchmark	●
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 <sup>[1]</sup> <sup>[2]</sup>

	BlackRock - Passive Multi-asset	UBS - Passive Multi-asset	Schroders - Property	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Cash	Total Fund
<b>3 Months (%)</b>								
Absolute Benchmark	2.3 2.4	2.4 2.4	4.6 4.3	4.7 -2.4 7.3	4.8 2.4	1.4 0.1	N/A N/A	2.7 2.3
Relative	0.0	0.0	0.3		2.3	1.2	N/A	0.4
<b>12 Months (%)</b>								
Absolute Benchmark	9.3 9.4	9.3 9.4	13.3 15.1	-1.2 -4.0	5.9 10.6	4.8 0.5	N/A N/A	9.0 9.2
Relative	-0.1	-0.1	-1.6	2.9	-4.2	4.3	N/A	-0.2
<b>3 Years (% p.a.)</b>								
Absolute Benchmark	N/A N/A	N/A N/A	5.5 6.6	-4.2 -7.2	7.7 10.1	4.5 0.6	N/A N/A	7.3 7.3
Relative	N/A	N/A	-1.1	3.2	-2.2	3.8	N/A	0.0
<b>Since Inception (% p.a.)</b>								
Absolute Benchmark	14.1 14.2	14.1 14.1	3.2 4.1	-0.5 -2.3	6.5 6.7	3.7 0.7	N/A N/A	7.5 7.8
Relative	-0.2	0.0	-0.9	1.8	-0.2	3.1	N/A	-0.3

1] Since inception: BlackRock (20 Nov 12), UBS (15 Nov 12), Schroders (12 Oct 04), Investec (25 Feb 10), HarbourVest (29 Jun 06), M&G (01 May 10)

source: [1] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited



## BlackRock - Passive Multi-Asset

### IR View Comment & Rating



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

BlackRock remains one of our preferred passive managers.

### 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 £ Govt-Gilts All Stocks (7.7%).

Over the quarter, the BlackRock multi-asset mandate delivered a positive return of 2.3%, broadly matching its composite benchmark return. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect from a passive manager. Two underlying funds: the European Equity Index and the Israel Equity Index produced negative absolute returns. All other underlying funds produced positive absolute returns, broadly reflecting the underlying index returns.

### Performance Summary to 30 June 2014

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.3	9.3	N/A	14.1
Benchmark	2.4	9.4	N/A	14.2
Relative	-0.0	-0.1	N/A	-0.2

\* Inception date 20 Nov 2012.

## UBS - Passive Multi-Asset

### IR View Comment & Rating



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

UBS remains one of our preferred passive managers.

### Performance Summary to 30 June 2014

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.4	9.3	N/A	14.1
Benchmark	2.4	9.4	N/A	14.1
Relative	0.0	-0.1	N/A	0.0

\* 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 positive return of 2.4%, 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

## IR View Comment & Rating



There were no significant developments to report over the quarter.

## Performance Summary to 30 June 2014

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.6	13.3	5.5	3.2
Benchmark	4.3	15.1	6.6	4.1
Relative	0.3	-1.6	-1.1	-0.9

\* Inception date 12 Oct 2004.

## Performance Summary - Comment

The multi-manager property mandate outperformed the IPD index by 0.5% over the quarter, returning 1.6% in absolute terms. Longer-term performance has been held back by poor performance from the mandate's exposure to European property.

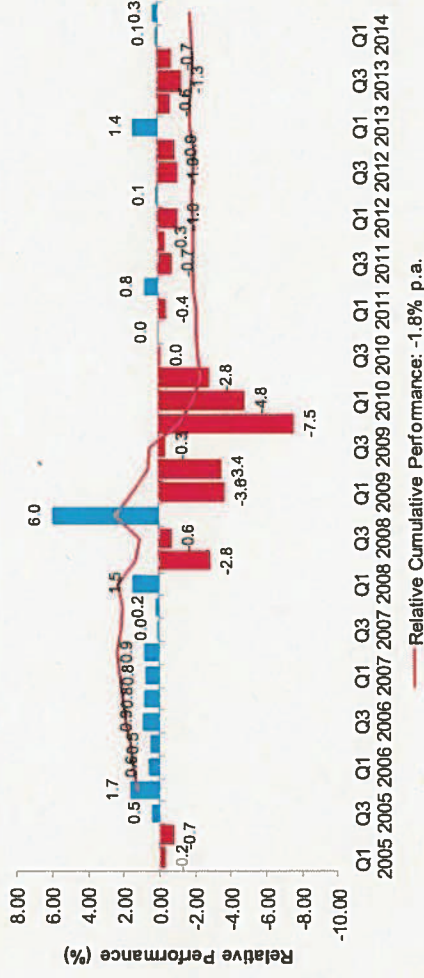
Within the UK property market, capital values are beginning to see support from increasing rental values. Schroders believe this increase will offset the impact of an increase in interest rates in the short term. UK investments have outperformed over one and three years however, negative returns from European property has partially offset these gains. The manager continues to progressively reduce the mandate's European exposure (c6% of the portfolio at quarter-end) with proceeds being reinvested into the UK.

Industrial specialists such as the Industrial Property Investment fund performed well, benefiting from improved occupier demand across the country. The mandate's exposure to value added funds have continued to drive performance over all time periods.

Over the twelve month and 3 year periods specialist funds continue to be the strongest drivers of performance. West End of London PUT has performed particularly well, driven by positive rental growth and investor demand for the Central London office sector.

Source: [] Fund Manager, Hymans Robertson, Investment Property Databank Limited

## Relative Quarterly and Relative Cumulative Performance



## Investec - Commodities

### IR View Comment & Rating



There was no significant news to report over the quarter.

While performance has been significantly above benchmark this quarter, we note that this level of volatility is not uncommon for this mandate.

### Performance Summary - Comment

The Investec Global Commodities & Resources Fund delivered a positive return for the quarter, significantly outperforming its Dow Jones-UBS Commodities Total Return benchmark by 7.3%. The mandate remains ahead of its benchmark over 12 months, 3 years and since inception.

The fund's exposure to the energy sector was the largest contributor to absolute performance, in particular to integrated oil & gas companies. The funds exposure within the precious metals sector also added to performance, with the funds position in gold equity contributing to these returns. Within agriculture & softs, the funds equity exposure was the largest contributor, buoyed by falling feed prices and tight supply.

### Performance Summary to 30 June 2014

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	-1.2	-4.2	-0.5
Benchmark	-2.4	-4.0	-7.2	-2.3
Relative	7.3	2.9	3.2	1.8

\* Inception date 25 Feb 2010.

# Harbourvest - Venture Capital

## IR View Comment & Rating



HarbourVest remains one of our favoured private equity fund of fund managers.

## Performance Summary - Comment

The HarbourVest mandate returned 4.8% over the quarter, outperforming its benchmark return of 2.4%. However, the mandate has underperformed its benchmark over 12 months, 3 years and since inception.

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.

## Performance Summary to 30 June 2014

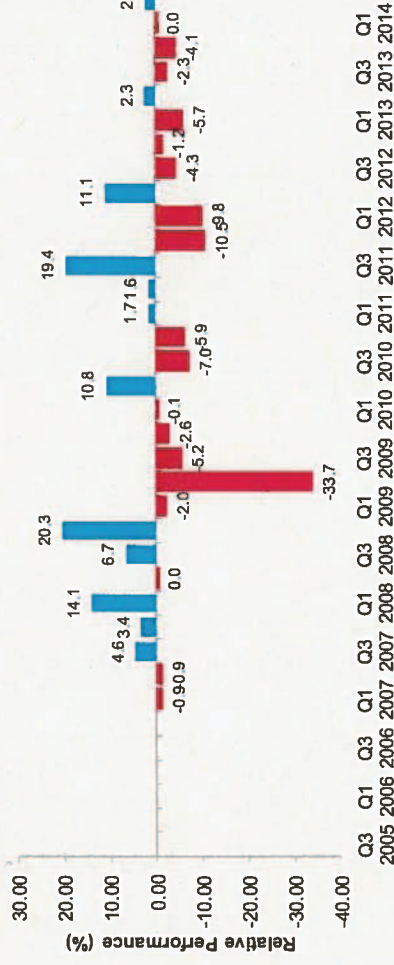
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.8	5.9	7.7	6.5
Benchmark	2.4	10.6	10.1	6.7
Relative	2.3	-4.2	-2.2	-0.2

\* Inception date 29 Jun 2006.

## 3 Year Relative Return

Actual % p.a.	Target % p.a.
-2.2	5.0

## Relative Quarterly and Relative Cumulative Performance



## M&G - UK Companies Financing Fund

### IR View Comment & Rating



There was no significant news to report over the quarter.

### Performance Summary - Comment

The UK Companies Financing Fund (UKCFF) returned 0.9% over the quarter, outperforming its LIBOR benchmark return of 0.1%.

The weighted average credit rating was stable at BB+, with an average maturity of 5.3 years. The weighted average credit spread was 437bps at the end of the period.

The returns shown are sourced from Northern Trust.

### Performance Summary to 30 June 2014

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.4	4.8	3.7
Benchmark	0.1	0.5	0.7
Relative	1.2	4.3	3.1

\* Inception date 01 May 2010.

## Performance Calculation

### Geometric vs Arithmetic Performance

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

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

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		Relative Performance
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%
Linked 6 months	36.96%	35.66%	-0.25%	36.96%	35.66%	0.96%
6 Month Performance			1.30%			0.96%

#### 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.



<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	<b>Asset Allocation and Rebalancing Policy</b>		
<b>KEY DECISION</b>	No	<b>Item No:</b>	7
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Executive Director for Resources & Regeneration		
<b>CLASS</b>	Part 1	<b>Date:</b>	9 September 2014

## 1. SUMMARY

- 1.1 This report provides members with an analysis of the asset allocation of the Pension Fund and compares the current asset allocation position to the strategic benchmark set in the Pension Fund's Statements of Investment Policy 2014-15.
- 1.2 The aim of this paper is to:
- (i) Set out the new strategic allocation of assets to be included in the 2014-15 Statement of Investment Principles,
  - (ii) Set out a rebalancing policy,
  - (iii) and determine whether there has been significant drift from the strategic benchmark, and if so agree the necessary steps to bring the assets back into alignment.

## 2. RECOMMENDATION

- 2.1 The Committee is recommended:
- 1) agree the new strategic allocation for 2014-15
  - 2) to agree a new rebalancing policy as set out in section 5 below
  - 3) to approve delegation to the Executive Director of Resources in consultation with the Chair of Pensions Investment Committee to undertake asset allocation rebalancing when required.

## 3. BACKGROUND

- 3.1 Rebalancing is the process of realigning the weightings of the funds assets to its strategic benchmarks. Benchmarks are set in order to ensure that the fund meets optimal return that is consistent with the prudent level of risk.
- 3.2 Rebalancing ensures that these benchmarks are maintained. The Statement of Investment Principles (SIP) sets out the current benchmark position for each asset class and was originally agreed in 2012.
- 3.3 As market values move over time, and as managers over and underperform, the proportions actually held in different asset classes will move away from the

target allocations Rebalancing of the Fund is currently done on an adhoc basis due to the costs involved and other complications associated with transfer of assets from one manager to another.

- 3.4 It can be financially beneficial to undertake rebalancing of the portfolios when asset classes move away from the targets set in strategy. The aim of a rebalancing policy is to provide a clear, pragmatic and efficient approach to the distribution of the fund assets.

#### 4. TARGET ASSET ALLOCATION

- 4.1 The strategic Allocation set out in the SIP 2013 was prior to deciding on where to invest additional cash of £25 million. This was the proceeds from the closure of the Fauchier hedge of hedge funds mandate in 2012. The allocation is shown in table 1 below:

Table 1: 2013 Strategic Allocation

Asset Class	Manager	Benchmark	Benchmark (%)
<b>Equities:</b>			
Private Equity	Habourvest	MSCI All Country World developed Index	3.0
Listed Equity	Blackrock (passive)	Composite	30.0
Listed Equity	UBS (passive)	Composite	30.0
<b>Bonds:</b>			
	Blackrock (passive)	Composite	9.0
	UBS (passive)	Composite	9.0
<b>Sub Total</b>			<b>81.0</b>
Property	Schroders	IPD Pooled Property Fund Index	10.0
UK Financing Fund	M&G	LIBOR	1.0
Commodities	Investec	Dow Jones-UBS Commodities Total Return Index	5.0
Temporary Cash Holding			3.0
<b>Total</b>			<b>100.0</b>

- 4.2 The £25 million has now been re-invested in the passive equity mandate (Blackrock £12.5 million, UBS £12.5 million). As a result, the strategic allocation has been revisited, and the benchmarks have been slightly revised. We have consulted with our advisers Hymans Robertson, and the new benchmark is set out in table 2 below:

Table 2: 2014 Strategic Allocation

Asset Class	Manager	Benchmark	New Benchmark (%)
<b>Equities:</b>			
Private Equity	Harbourvest	MSCI All Country World developed Index	3.0
Listed Equity	Blackrock (passive)	Composite	31.2
Listed Equity	UBS (passive)	Composite	31.2
<b>Bonds:</b>			
	Blackrock (passive)	Composite	9.3
	UBS (passive)	Composite	9.3
<b>Sub Total</b>			<b>84.0</b>
Property	Schroders	IPD Pooled Property Fund Index	10.0
UK Financing Fund	M&G	LIBOR	1.0
Commodities	Investec	Dow Jones-UBS Commodities Total Return Index	5.0
Cash Holding			0.0
<b>Total</b>			<b>100.0</b>

4.3 The last review of the target asset allocation was undertaken during the 2012 transition of the Fund from active to passive management. The following table shows the target allocation versus the actual allocations as at 30 June 2014 using market value (source: Northern Trust).

Table 3: Current fund allocations

Asset Class	Manager	Value as at 30 Jun 14 £'000	Actual (A) Allocation %	Target (T) Allocation %	Variance (A-T) %
<b>Equities:</b>					
Private Equity	Harbourvest	40,708	4.4	3.0	1.4
Listed Equity	Blackrock (passive)	291,676	31.4	31.2	0.2
Listed Equity	UBS (passive)	291,926	31.4	31.2	0.2
<b>Bonds:</b>					
	Blackrock (passive)	86,887	9.3	9.3	0.0
	UBS (passive)	87,392	9.4	9.3	0.1
<b>Equities / Bonds Sub Total</b>			<b>85.9</b>	<b>84.0</b>	<b>1.9</b>
Property	Schroders	81,151	8.7	10.0	-1.3
UK Financing Fund	M&G	14,106	1.5	1.0	0.5
Commodities	Investec	35,239	3.8	5.0	-1.2
Cash Holding		874	0.1	0.0	0.1
<b>Other Sub Total</b>			<b>14.1</b>	<b>16.0</b>	<b>-1.9</b>
<b>Total</b>		<b>929,959</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

Note: Cash holding includes pending cash for BlackRock and UBS portfolios (as reported by Northern Trust)

4.4 The table above shows that the greatest drift is private equity and property. Private equity is 1.4% above the strategic benchmark, and property is 1.3% less than the strategic benchmark. The rebalancing policy below sets out proposed tolerance levels for the Fund’s mandates. If the policy was to be agreed, the portfolio would not need to be rebalanced at this stage.

## 5. REBALANCING POLICY

5.1 A rebalancing policy is important as it provides a framework for maintaining the Fund’s assets within range of its strategic benchmark. A rebalancing policy should be set in such a way as to avoid excessive rebalancing during volatile markets, and should take into account the following factors:

- Tolerance levels – the acceptable % allocation ranges for individual mandates/asset classes,
- Frequency – the frequency of monitoring/rebalancing, and
- Rebalancing target – the point to rebalance to.

In turn, the factors above should take into account characteristics of the individual asset classes, including liquidity (and transaction costs) and volatility.

5.2 Existing rebalancing arrangements are currently in place for the BlackRock and UBS passive multi-asset mandates. Rebalancing operates *within* each mandate, as follows:

Table 4: BlackRock and UBS rebalancing

Mandates	Policy
<b>BlackRock</b>	Rebalancing tolerance levels of +/- 2% for the following allocations: <ul style="list-style-type: none"> <li>- UK Equity (20.5%)</li> <li>- Global Equity (56.5%)</li> <li>- Over 15 Year Gilts (7.6%)</li> <li>- Over 5 Year Gilts (7.7%)</li> <li>- UK Corporate Bonds (7.7%)</li> </ul> Monitored on a daily basis, with rebalancing occurring at the next available dealing date if outwith the tolerance range.
<b>UBS</b>	Strategic benchmarking is as follows: <ul style="list-style-type: none"> <li>- UK Equity (20.5%)</li> <li>- Global Equity (56.5%)</li> <li>- UK fixed interest (7.6%)</li> <li>- UK Index linked (7.7%)</li> <li>- UK Corporate Bonds (7.7%)</li> </ul> Monitoring and rebalancing occurs on a quarterly basis, with holdings rebalancing to the benchmark allocation.

5.3 Rebalancing arrangements are proposed for the Fund's mandates, below:

Table 5: Tolerance levels

<b>Mandates</b>	<b>Deviation from Strategic benchmark</b>	<b>Action</b>
<b>BlackRock (passive multi-asset)</b>	+/- 3%	Monitored on a quarterly basis, with rebalancing to +/- 1.5% at the next available opportunity.
<b>UBS (passive multi-asset)</b>	+/- 3%	Monitored on a quarterly basis, with rebalancing to +/- 1.5% at the next available opportunity.
<b>Schroders Property</b>	+/- 2%	Monitored on a quarterly basis, with rebalancing to +/- 1% at the next available opportunity.
<b>Investec Commodities</b>	+/- 1.5%	Monitored on a quarterly basis, with rebalancing +/- 0.75% at the next available opportunity.
<b>HarbourVest Private Equity</b>	-	Rebalancing is not available for this mandate, given its structure (pre-arranged commitments and buy-and hold).
<b>M&amp;G UK Financing Fund</b>	-	Rebalancing is not available for this mandate, given its buy-and-hold structure.

5.4 In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

5.5 Where a mandate is underweight and outwith its tolerance level, the Fund's surplus cash flow will be used to bring assets back to within the tolerable range. If the surplus cash is not sufficient, the rebalancing will be undertaken by selling funds from the mandates that are most overweight, and using the proceeds to purchase assets that are the most underweight.

5.6 Where a mandate is overweight and outwith its tolerance level, assets will be disinvested from the mandate, and the proceeds reinvested in the most underweight mandate. Where multiple mandates qualify as being 'most underweight', the proceeds will be re-invested in relative proportions to bring the respective mandates to a similar level of underweight.

5.7 It has been built into this policy the option for the Executive Director of Resources and Regeneration to exercise discretion to override table 5. This option offers flexibility that takes into account market conditions and other factors that will influence the process of rebalancing.

#### **Costs of rebalancing**

5.8 Rebalancing involves portfolio transactions. The cost of selling the assets, and the cost of purchasing the new assets. The costs will depend on market conditions, and the asset classes involved. In general, illiquid assets are more expensive to transact in than liquid assets. Consideration has been given to the

potential costs in setting the tolerance levels and rebalancing frequencies in section 5.3 above.

- 5.9 This policy will be added to the SIP which will be included in the 2013/14 annual report.

## **6. FINANCIAL IMPLICATIONS**

- 6.1 The Fund's approach to asset allocation links with its investment strategy. The investment strategy is set for the long-term. A significant proportion of the asset allocation is to growth assets because they are expected to achieve a higher rate of return over the long-term. However this strategy carries with it a greater risk of volatility in the short-term and medium-term.

- 6.2 Rebalancing seeks to add value to the fund over time by:
- a) reallocating assets from mandates that have risen beyond their respective tolerance levels (equivalent to selling assets that have done relatively well) or
  - b) topping up assets to mandates that have fallen below their respective tolerance levels (equivalent to purchasing assets that have become relatively cheaper).

By limiting rebalancing to the mid-point of the difference between the benchmark allocation and relevant boundary of the tolerance range, trading costs are minimised (relative to rebalancing to the target allocation).

## **7. LEGAL IMPLICATIONS**

- 7.1 The proposed rebalancing policy contained in the Recommendations and the authority delegated to Executive Director for Resources and Regeneration to undertake a rebalancing review and to have the flexibility to make a tactical rebalancing decision are subject to clear limits contained in the proposed rebalancing policy set out in paragraph 5 of this Report, if the Recommendations are accepted by Members. The benefits and risks of adopting the policy are set out in the Report and are for Members to weigh up.
- 7.2 Any rebalancing must be in accordance with the Authority's statement of investment principles which govern decisions about the investment of Fund money, including amongst other things, the types of investment to be held, the balance between different types of investments, risk, (including the ways in which risks are to be measured and managed) and the expected return on investments.
- 7.3 Any movement of assets from other parts of the Fund or the use of cash to achieve a rebalancing of particular investment funds must also comply with the Local Government Pension Scheme ( Management and Investment of Funds ) Regulations 2009 (the Regulations) which set out restrictions on types of investments by limiting the proportion of Fund money which may be invested in that type of investment.
- 7.4 If the delegation is agreed, then the Executive Director must, where necessary, obtain and consider proper independent advice and act prudently in taking any steps in relation to the Fund's investments .

**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.

**FURTHER INFORMATION**

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

David Austin on 020 8314 9114 Head of Corporate Resources, or Adeola Odeneye Principal Accountant Strategic Finance on 020 8314 6147

# Agenda Item 8

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Lewisham Pension Board		
KEY DECISION	No	Item No:	8
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	9 September 2014

## 1. SUMMARY

- 1.1 This report provides members with an overview of the requirement for a Pension Board and its draft terms of reference.

## 2. RECOMMENDATION

- 2.1 The Committee is recommended to:

- (1) Note legislative requirement to set up a Pension board.
- (2) Agree the draft terms of reference for the Pension board, subject amendments following the final guidance expected to be issued in late September / early October.
- (3) Agree the payment of £4,000 (plus VAT) and an annual maintenance fee of £2,000 (plus VAT) for a hosted website that will provide the latest communications to members and employers on Pension related issues.

## 3. BACKGROUND

- 3.1 Section Five of the Public Service Sector Pensions Act 2013 requires each administering authority to establish a local Pension Board no later than 1 April 2015. The responsibility of the Pension Board is to assist the administering authority with the following areas:

- (1) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- (2) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- (3) such other matters as the scheme regulations may specify.



- 3.2 The Act includes a requirement for the Department for Communities and Local Government (DCLG) to make regulations establishing a national scheme advisory board and enabling each Local Government Pension Scheme (LGPS) administering authority to establish a local Pension Board. On 23 June 2014, the DCLG issued draft regulations on scheme governance for LGPS. The paper: “The Local Government Pension Scheme (Amendment) Regulations 2014” has an eight week statutory consultation period. The closing date for responses was 15 August 2014.
- 3.3 The regulations form “Part 3 Governance” of the LGPS Regulations 2013 (the Principal Regulations). Some of these regulations come into force on 1 October 2014, the rest come into force on 1 January 2015. A summary of the paper is set out in the next section.

#### **4. THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2014**

The regulation is made up of the following sections:

##### *4.1 Regulation 106: Establishment*

Each administering authority is required to establish a local pension board by 1<sup>st</sup> April 2015. The Draft regulations is consulting on two alternative approaches to set up the pension board. The first is to treat the board as if it was established under section 101 of the Local Government Act 1972, and the second is to enable the administering authority to determine the procedures applicable to a local pension board.

##### *4.2 Regulation 107: Membership*

The pension board must have an equal number of employer and member representatives with relevant experience. The minimum membership number is four.

##### *4.3 Regulation 108: Conflicts of interest*

The administering authority must be satisfied that any person to be appointed as a member of the pension board does not have a conflict of interest.

##### *4.4 Regulation 109: Guidance*

Administering authorities must have regards to guidance issued by the Secretary of State.

##### *4.5 Regulation 110: Scheme advisory board – Establishment*

The Local Government Pension Advisory Board is to be established, and will have responsibility for advising the Secretary of State on the desirability of

making changes to the scheme, providing advice to administering authorities and local pension boards.

#### 4.6 *Regulation 111: Scheme advisory board – Membership*

The scheme advisory board is to be chaired by an appointment of the Secretary of State who can then appoint a further between 2 and 12 members with approval from the Secretary of State.

#### 4.7 *Regulation 112: Scheme advisory board - Conflicts of interest*

The Secretary of State must satisfy themselves that members of the scheme advisory board does not have a conflict of interest.

#### 4.8 *Regulation 113: Scheme advisory board – funding*

The scheme advisory board will need to agree its budget with the Secretary of State and then determine each administering authority's share of this cost.

#### 4.9 The draft regulation is attached at Appendix A.

#### 4.10 The main point of consultation is whether the Board should be established under Part 6 of the Local Government Act 1972, or whether an administering authority may determine the procedures including voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses itself. Final guidance is expected to be released at the end of September or in early October.

### **5. LEWISHAM PROGRESS UPDATE: PENSIONS WORKING GROUP**

5.1 A Pension Board working group has been set up to support the creation of the Pension Board. The group consists of: Councillor Ingleby, Councillor Muldoon, David Austin (Pensions Investment and Administration), Helen Glass (Legal), Carol Eldridge (Pensions Administration), and Adeola Odeneye (Pensions Investment).

5.2 The group have prepared a draft Pension Board terms of reference, person specifications for employer/employee representatives, and an Independent member. These documents are attached as Appendix B, C and D respectively.

5.3 The main points in the documents that PIC are asked to comment on are the:

- Remit of the Pension Board and how this may change the remit of PIC;
- Appointment process of Pension Board members; and
- Essential criteria for representatives.

### **6. PENSIONS WEBSITE HOSTED EXTERNALLY**

6.1 The information that must be provided to scheme members is set out in the Disclosure Regulations 2013. Schemes must provide the required information,

along with confirmation that members may request further information if required and the type of information that is available.

- 6.2 Schemes must disclose information about the scheme and the benefits it provides and currently Lewisham has an internal intranet site that is accessible to employees only. It therefore does not meet the requirement for retired members or those working for other bodies and their employers. In addition, maintaining this site following the introduction of the new 'Care Scheme' alongside the old 'Final Salary' scheme means the volume and complexity of changes in pensions makes keeping the site up to date without additional resource very difficult.
- 6.3 Delays in ensuring that the most recent information is available could result in an employee or employer making an ill informed decision which could ultimately lead to the Pensions Ombudsman imposing a fine on the Council. Any fine imposed, along with the costs of rectifying the error, could be substantial.
- 6.4 Rather than increase the in-house team's resources to do this and try to find an internal IT solution to meet both employee and employer needs, officers are proposing to invest in a site that is hosted externally by dedicated pensions experts. The advantage of this would be that changes to the regulations are kept up to date promptly which should cut down on the number of queries to the in-house team.
- 6.5 The host will also upload any Lewisham documents to the site that the Council requests. For example, the annual Fund Report, Valuation document, our Discretions Policy, and forms/ letters used by the administration team.
- 6.6 Unlike the current intranet site this proposed solution will also allow the Pensioners and Deferred members access to the site as well as other employers. This will better fulfil the objectives of the Fund's communication policy.
- 6.7 Hymans Robertson supply an externally hosted website for Local Government Pension Fund clients. The website would use their off the shelf LGPS template which includes all the generic content for LGPS members, and allows Lewisham to give the site a local identity with the Lewisham own logo, colour scheme and images. The cost of the site is a one off fee of £4,000 (+VAT) for set up, plus a £2,000 (+VAT) annual hosting and maintenance fee.
- 6.8 Hymans currently supply the site to 12 LGPS funds, including Croydon, and Barking and Dagenham. There is also further information and detail on the product at: <http://lgpspensionsweb.hymans.co.uk/>

## **7. FINANCIAL IMPLICATIONS**

- 7.1 The Pension Board members will be volunteers, remuneration will be based on the Council's standard co-optee allowance. There is also a statutory requirement for each administering authority to contribute towards the costs of running a

scheme advisory board. At present, no indication has been given to the value of this contribution.

- 7.2 The cost of the proposed website is a one off fee of £4,000 (+VAT) for set up, plus a £2,000 (+VAT) annual hosting and maintenance fee. If agreed, this payment will be paid from the pension fund account.

## **8. LEGAL IMPLICATIONS**

- 8.1.1 The legal implications relating to the establishment of a Pensions Board are set out in the body of the Report. This is a statutory requirement although it is expected that there will be some discretion given to individual Administering Authorities as to the number of members on the Board, remit, subject to the statutory requirements which will be laid out in the Regulations, training and remuneration of Board members.
- 8.1.2 It will be for Council to determine the terms of reference of the Board, having regard to the views of this Committee to which the management of the Pension Fund has been delegated and the Constitution Working Party.

## **9. CRIME AND DISORDER IMPLICATIONS**

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

## **10. EQUALITIES IMPLICATIONS**

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

## **11. ENVIRONMENTAL IMPLICATIONS**

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

### **FURTHER INFORMATION**

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

David Austin, Head of Corporate Resources on 020 8314 9114, or  
Adeola Odeneye, Principal Accountant Strategic Finance on 020 8314 6147

Annex A

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STATUTORY INSTRUMENTS

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2014 No. 0000

**PUBLIC SERVICE PENSIONS, ENGLAND AND WALES**

**The Local Government Pension Scheme (Amendment) Regulations  
2014**

<i>Made</i> - - - -	2014
<i>Laid before Parliament</i>	2014
<i>Coming into force</i> - -	2015

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(1).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

**Citation, commencement interpretation and extent**

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2014.

(2) In these Regulations “the Principal Regulations” means the Local Government Pension Scheme Regulations 2013(2)

(3) These Regulations come in to force as follows—

(a) on 1st October 2014, regulations 2, 4 and 5—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

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(1) 2013 c. 25  
(2) S.I. 2013/2356.

## APPENDIX A DRAFT REGULATIONS FOR PENSION BOARD

- (ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and
  - (iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and
- (b) on 1st January 2015—
- (i) regulations 2, 4 and 5 so far as not already commenced, and
  - (ii) the remainder of these Regulations.
- (4) These Regulations extend to England and Wales.

### **Amendment of the Local Government Pension Scheme Regulations 2013**

2. The Principal Regulations 2013 are amended in accordance with regulations 3 to 5.
3. Omit regulation 53(4) (scheme managers: establishment of pension board).
4. In Schedule 1 (interpretation) after the entry for “local government service” insert—
  - “”Local Government Pensions Scheme Advisory Board” means a board established under regulation 110 (Scheme advisory board: establishment);
  - “local pension board” means a board established under regulation 106 (local pension boards: establishment);”
5. After regulation 104(3) insert—

## **“PART 3**

### **Governance**

#### **Delegation**

- 105.**—(1) The Secretary of State may delegate any functions under these Regulations.
- (2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

#### **Local pension boards: establishment**

- 106.**—(1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it—
- (a) to secure compliance with—
    - (i) these Regulations,
    - (ii) any other legislation relating to the governance and administration of the Scheme, and
    - (iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and
  - (b) to ensure the effective and efficient governance and administration of the Scheme.
- (2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.
- (3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

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(3) Regulation 104 was inserted by S.I. 2014/1146.

## APPENDIX A DRAFT REGULATIONS FOR PENSION BOARD

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) [Where a local pension board is established by a local authority within the meaning of section 270 of the Local Government Act 1972(4), Part 6 of that Act applies to the board as if it were a committee established under section 101 of that Act].

(5) [An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses].

(6) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

### **Local pension boards: membership**

**107.**—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

- (a) the membership of the local pension board;
- (b) the manner in which members of the local pension board may be appointed and removed;
- (c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives (5) and for these purposes—

- (a) a member of a local authority is not to be appointed as an employer or member representative; and
- (b) the administering authority must be satisfied that—
  - (i) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and
  - (ii) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) The number of members appointed under paragraph (2) must exceed the number of members otherwise appointed to a local pension board.

### **Local pension boards: conflict of interest**

**108.**—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(6).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

### **Local pension boards: guidance**

**109.** An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

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(4) 1972 c. 70.

(5) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.

(6) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

## APPENDIX A DRAFT REGULATIONS FOR PENSION BOARD

### **Scheme advisory board: establishment**

**110.**—(1) A scheme advisory board (“the Local Government Pension Scheme Advisory Board”) is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

### **Scheme advisory board: membership**

**111.**—(1) The Local Government Pension Scheme Advisory Board is to consist of the following members—

- (a) the Chair appointed by the Secretary of State; and
- (b) at least 2, and no more than 12, persons appointed by the Chair with the approval of the Secretary of State.

(2) When deciding whether to give or withhold approval to appointments under paragraph (1)(b) the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member’s appointment.

(4) The Chair of the Local Government Pension Scheme Advisory Board may appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(5) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member’s appointment.

### **Scheme advisory board: conflict of interest**

**112.**—(1) Before appointing, or approving the appointment of any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest<sup>(7)</sup>.

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

### **Scheme advisory board: funding**

**113.**—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

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(7) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.



## APPENDIX A DRAFT REGULATIONS FOR PENSION BOARD

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

- (a) its annual budget approved by the Secretary of State; and
- (b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.”.

We consent to the making of these Regulations

Date *Names*  
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Date *Name*  
Parliamentary Under Secretary of State  
Department for Communities and Local Government

### **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 and 4 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pensions board. Local pensions boards must have equal representation of employer representatives and member representatives who must not be councillors of the administering authority and who must constitute the majority of members of the board.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

# Terms of reference for the Pension Board of the London Borough of Lewisham Pension Fund

## **Terms of Reference and Delegated Authorities**

### **1) Introduction**

The purpose of this document is to set out the terms of reference for the local Pension Board of the London Borough of Lewisham pension fund.

### **2) Role of the Local Pension Board**

The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- Assist the London Borough of Lewisham as Scheme Manager; –
  - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
  - in such other matters as the LGPS regulations may specify
- Secure the effective and efficient governance and administration of the LGPS for the Lewisham Pension Fund
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board will also help ensure that the Lewisham Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

### **3) Appointment of members of the Pension Board**

The process for selecting members of the Pension Board is set out below.

[ THIS WILL BE DETERMINED AT THE NEXT PENSION INVESTMENT COMMITTEE ]

The Pension Board shall consist of 5 members and be constituted as follows:

- i) 2 employer representatives;
- ii) 2 scheme member representatives;
- iii) 1 independent member selected by Scheme Manager.

Scheme member and employer representatives shall be appointed in equal number and shall together form the majority of the Board's membership.

## **APPENDIX B: TERMS OF REFERENCE PENSIONS BOARD**

The Chair of the local Pension Board will be the Independent member. It will be the role of the Chair to ensure that all members of the Board show due respect for process, that all views are fully heard and considered and to determine when consensus has been met.

The term of office for the Chair will be 3 years.

In the first year of the local pension board, the employer and scheme member representatives shall serve for a mixed tenure of 2 and 3 years. Thereafter they will serve a fixed term of 3 years.

Each Board member should endeavour to attend all Board meetings during the year. In the event of consistent non-attendance by any Board member, then the tenure of that membership should be reviewed by the other Board members in liaison with the Scheme Manager.

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all of the other members. The removal of the independent member requires the consent of the Scheme Manager.

The Board may, with the approval of the Scheme Manager, co-opt persons who are not members of the Board to serve on sub committees, particularly where this would add skills and experience. The maximum number of co-opted members to a committee shall be [...]. Notwithstanding the appointment of co-opted members, the majority of the Board shall be comprised of employer and Scheme member representatives, represented in equal number.

### **4) Quorum**

The Board shall have a formal quorum of 3 rounded up where membership is not an even number.

Advisers and co-opted persons do not count towards the quorum.

### **5) Conflicts of Interest**

The policy for identifying conflicts of interest is set out in a separate policy document.

[REFERENCE FROM HELEN GLASS]

### **6) Board Review Process**

The Board will undertake each year a formal review process to assess how well it and its committees, and the members are performing with a view to seeking continuous improvement in the Board's performance.

### **7) Advisers to the Board**

- The Board may make use of advisers from time to time, subject to any applicable regulation and legislation in force, but this will be optional resource subject to budget agreements.

### **8) Knowledge and Skills**

A member of the Pension Board must be conversant with –

1 The legislation and associated guidance of the Local Government Pension Scheme (LGPS).

2 Any document recording policy about the administration of the LGPS which is for the time being adopted by the Lewisham Pension Fund.

A member of the Local Pension Board must have knowledge and understanding of –

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

It is for individual Pension Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

## **APPENDIX B: TERMS OF REFERENCE PENSIONS BOARD**

In line with this requirement Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to maintain a written record of relevant training and development.

Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. Pension Board members will comply with the Scheme Manager's training policy.

### **9) Board Meetings – Notice and Minutes**

The Scheme Manager shall give notice to all Pension Board members of every meeting of the Pension Board. The Scheme Manager shall ensure that a formal record of Pension Board proceedings is maintained. Following the approval of the minutes by the Chair of the Board or Board committee, they shall be circulated to all members.

There will be one Pension Board meeting a year to be held, with the option to call another in the case of emergency.

### **10) Remit of the Board**

The Pension Board must assist the Scheme Manager with such other matters as the scheme regulations may specify. It is for scheme regulations and the Scheme Manager to determine precisely what the Pension Board's role entails.

### **11) Standards of Conduct**

The role of Pension Board members requires the highest standards of conduct and therefore the "seven principles of public life<sup>1</sup>" will be applied to all Pension Board members and embodied in their code of conduct.

<sup>1</sup> Standards Matter: a review of best practice in promoting good behaviour in public life", Committee on Standards in Public Life, January 2013

These are –

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

### **12) Decision making**

Each member of the Pension Board will have an individual voting right but it is expected the Pension Board will as far as possible reach a consensus. The Chair of the Pension Board will have the final deciding vote which will be reported to the Scheme Manager.

### **13) Publication of Pension Board information**

Scheme members and other interested parties will want to know that the Lewisham Pension Fund is being efficiently and effectively managed. They will also want to be confident that the Pension Board is properly constituted, trained and competent in order to comply with scheme regulations, the governance and administration of the scheme and requirements of the Pension Regulator.

Up to date information will be posted on the Lewisham Pension Fund website showing

## **APPENDIX B: TERMS OF REFERENCE PENSIONS BOARD**

- The names and information of the Pension Board members
- How the scheme members are represented on the Pension Board
- The responsibilities of the Pension Board as a whole
- The full terms of reference and policies of the Pension Board and how they operate
- The Pension Board appointment process
- Who each individual Pension Board member represents
- Any specific roles and responsibilities of individual Pension Board members.

Pension Board papers, agendas and minutes of meetings will be published on the **Lewisham Pension Fund website**. These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

The Scheme Manager will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

### **14) Accountability**

The Pension Board will be collectively and individually accountable to the Scheme Manager.

### **15) Expense Reimbursement, [remuneration and allowances]**

Member allowance will be £600 per annum.

### **16) Reporting Breaches**

Any breach brought to the attention of the Pension Board, whether potential or actual, shall be dealt with in accordance with the procedure set out in a **separate policy document**.

### **17) Definitions**

The undernoted terms shall have the following meaning when used in this document:

<i>"Pension Board" or "Board"</i>	Means the local Pension Board for the London Borough of Lewisham administering authority for the Lewisham Pension Fund as required under the Public Service Pensions Act 2013
<i>"Scheme Manager"</i>	Means the London Borough of Lewisham as administering authority of the Lewisham Pension Fund.
<i>"Chair"</i>	Reference to duties to be performed, or authorities exercised, by the Chair
<i>"LGPS"</i>	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and the The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
<i>"Scheme"</i>	Means the Local Government Pension Scheme as defined under "LGPS"

### **18) Interpretation**

Any uncertainty or ambiguity or interpretation required relating to any matters contained in this document shall be resolved by reference to the Scheme Manager.

## **Representative on the Pension Board**

The Lewisham Pension Board is seeking to appoint an experienced, proactive and innovative volunteer to join this important Board as an employer/ee representative. This volunteer will already have a working/basic knowledge of Local Government Pensions Scheme. They will be someone who is keen to build on the excellent work already underway and have a real desire to lead and influence the outputs of this practice area.

### **TASK:**

- To secure compliance with
  - (i) the Local Government Pension Scheme Regulations,
  - (ii) any other legislation relating to the governance and administration of the Scheme, and
  - (iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and
- (b) to ensure the effective and efficient governance and administration of the Scheme.
- Ensure that Lewisham does not breach any of the requirements or rules set out in its policy documents.
- To understand and comply with the constitution and rules that govern the Lewisham Pension Fund and to review the constitution regularly (at least every three years) to ensure it is fit for purpose.
- Assisting Lewisham the administering authority of Lewisham Pension fund with its responsibility to:
  1. manage risks and ensure there are adequate internal controls
  2. keep records and ensure the quality of member data
  3. ensure the correct contributions are paid to the scheme
  4. manage conflicts of interest
  5. publish information about the board
  6. communicate information to members
  7. resolve disputes and report certain breaches of the law

## **PERSON SPECIFICATION**

### **Essential Criteria**

#### *Relevant Experience and capacity:*

- Knowledge of Pension Funds and Schemes.
- Knowledge of public sector and local government finance.
- Experience of participating in meetings open to the public and press.
- Mathematical/statistic literacy

#### *Understanding:*

- Has a broad understanding of the changing nature of the Pensions environment and Pensions matters in the wider context of the profession

#### *Commitment:*

- Demonstrate commitment to undertake training as determined by the Scheme Manager.

## APPENDIX C PERSON SPECIFICATION PENSION BOARD MEMBER

- Strong attendance record
- Committed to the objectives of the Pension Board, LGPS and its various stakeholders

### *Communication and team working*

- Ability to communicate clearly and sensitively and to take an active part in discussions
- Ability to influence and engage
- Ability to work effectively in a group
- Willing to express their own opinion in a reasoned way, while also listening to the views of others
- Ability to challenge constructively and ask questions appropriately

### *Accountability*

- The ability to come to an objective view based on evidence provided
- Ability to think and apply knowledge strategically
- Ability to exercise sound and independent judgement
- Willingness to make and stand by collective decisions, including those which may be unpopular
- Ability to manage difficult and/or challenging situations
- Ability to maintain confidentiality on confidential and/or sensitive information

### *Equal Opportunity*

- Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context.

### **Desirable criteria**

#### *Skills and Experience:*

- Experience of understanding financial matters.
- Experience of working effectively with colleagues as part of a team.
- Experience of working with governance structures

### **TENURE**

This appointment as representative, will commence from the start of the calendar year (1<sup>st</sup> January 2015). It is hoped that the appointment will be made as soon as possible.

### **TIME COMMITMENT**

## **APPENDIX C PERSON SPECIFICATION PENSION BOARD MEMBER**

This would equate to approximately 6 days a year. The majority of the time commitment will be training, but attendance would be required at 1-4 meetings per year which are three hours in length and are usually held in Council Chambers. It is hoped that each representative would attend for at least 75% of the meetings. Dates of the meetings are provided well in advance.

### **IN RETURN, THE REPRESENTATIVE WILL:**

- be able to locally influence and contribute to LGPS pensions at a policy level
- be provided with excellent professional support and assistance during your tenure on the board.



## **Independent Representative on the Pension Board**

The Lewisham Pension Board is seeking to appoint an experienced, proactive and innovative volunteer to join this important Board an Independent member. This volunteer will already have a working/basic knowledge of Local Government Pensions Scheme. They will be someone who is keen to build on the excellent work already underway and have a real desire to lead and influence the outputs of this practice area.

### **JOB SPECIFICATION:**

- Chair of the Pension Board
- To secure compliance with
  - (i) the Local Government Pension Scheme Regulations,
  - (ii) any other legislation relating to the governance and administration of the Scheme, and
  - (iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and
- (b) to ensure the effective and efficient governance and administration of the Scheme.
- Ensure that Lewisham does not breach any of the requirements or rules set out in its policy documents.
- To understand and comply with the constitution and rules that govern the Lewisham Pension Fund and to review the constitution regularly (at least every three years) to ensure it is fit for purpose.
- Assisting Lewisham the administrating authority of Lewisham Pension fund with its responsibility to:
  1. manage risks and ensure there are adequate internal controls
  2. keep records and ensure the quality of member data
  3. ensure the correct contributions are paid to the scheme
  4. manage conflicts of interest
  5. publish information about the board
  6. communicate information to members
  7. resolve disputes and report certain breaches of the law

### **PERSON SPECIFICATION**

#### **Essential Criteria**

##### *Educational:*

- A high degree of qualification, experience and training in Pensions

##### *Relevant Experience and capacity:*

- Knowledge of Pension Funds and Schemes.
- Knowledge of public sector and local government finance.
- Experience of participating in meetings open to the public and press.
- Mathematical/statistic literacy

## **APPENDIX D PERSON SPECIFICATION CHAIR (INDEPENDENT MEMBER)**

### *Understanding:*

- A full understanding of the structure of the LGPS including the responsibilities of and accountability to administering authorities, employing authorities, scheme members and taxpayers.
- Has a broad understanding of the changing nature of the Pensions environment and Pensions matters in the wider context of the profession

### *Commitment:*

- Demonstrate commitment to undertake training as determined by the Scheme Manager.
- Strong attendance record
- Committed to the objectives of the Pension Board, LGPS and its various stakeholders

### *Skills and Experience:*

- Participating in high-level meeting achieving effective outcomes
- Experience of understanding financial matters.

### *Communication and team working*

- Ability to communicate clearly, directing discussions in sensitive environments and to take an active part in discussions
- Ability to command respect and demonstrate strong leadership
- Ability to influence and engage
- Ability to work effectively in a group
- Willing to express their own opinion in a reasoned way, while also listening to the views of others
- Ability to challenge constructively and ask questions appropriately
- Assertive in pursuing the correct course of action

### *Accountability*

- The ability to come to an objective view based on evidence provided
- Ability to think and apply knowledge strategically
- Ability to exercise sound and independent judgement
- Willingness to make and stand by collective decisions, including those which may be unpopular
- Ability to manage difficult and/or challenging situations
- Ability to maintain confidentiality on confidential and/or sensitive information

## **APPENDIX D PERSON SPECIFICATION CHAIR (INDEPENDENT MEMBER)**

### *Equal Opportunity*

- Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context.

### **Desirable criteria**

- Experience of working with governance structures
- Experience of working effectively with colleagues as part of a team

### **TENURE**

This appointment as representative, will commence from the start of the calendar year (1<sup>st</sup> January 2015). It is hoped that the appointment will be made as soon as possible.

### **TIME COMMITMENT**

This would equate to approximately 6 days a year. The majority of the time commitment will be training, but attendance would be required at 1-4 meetings per year which are three hours in length and are usually held in Council Chambers. It is hoped that each representative would attend for at least 75% of the meetings. Dates of the meetings are provided well in advance.

### **IN RETURN, THE REPRESENTATIVE WILL:**

- be able to locally influence and contribute to LGPS pensions at a policy level
- be provided with excellent professional support and assistance during your tenure on the board.

# Agenda Item 9

## Training Schedule up until December 2014 as at 1<sup>st</sup> September 2014

Date	Conference /Event	Run By	Delegates/Cost
03-09-14	Introduction to Pension Funds/ Investment part 1	Investec	Free
11.09.14	SPS Alternative Investment Strategy for Pension Funds	SPS Conferences	Free, up to 2 places available
12.09.14	Pensions Age Autumn Conference: Striving for success	Pensions Age	Free
30.09.14	Trustee Master class	Professional Pensions	Free
30.09.14 or 04.12.14	Trustee Training – Trustee knowledge and understanding (intensive)	Punter Southall	£495 + VAT per place
09.10.14	SPS Property & Real Asset Investment Strategies for Pension Funds	SPS Conferences	Free, up to 2 places available
27-10-14	Introduction to Pension Funds/ Investment part 2 - LGPS	Investec	Free
05.11.14	Professional Pensions Investment Conference 2014	Professional Pensions	Free
06.11.14	First Steps: new trustees who are not familiar with financial markets	UBS	Free
19.11.14	Second Steps: examines in more detail the role that equities, bonds and alternatives can play in your investment strategy.	UBS	Free
03.12.14 – 05.12.14	Local Authority Pensions Fund Forum (LAPFF) - annual conference	LAPFF	*Up to 2 places available
03.12.14	National Association of Pension Funds (NAPF) – Trustee Conference	NAPF	TBC
04.12.14	Pensions in Action	Professional Pensions	Free

Details below:

### **SPS Alternative Investment Strategy**

Location: Le Meridien Piccadilly, 21 Piccadilly, London, W1 0BH

Date 11th September 14

Time: 8:30-16:45

Price: Free

[http://www.spsconferences.com/conference\\_details.asp?confid=234](http://www.spsconferences.com/conference_details.asp?confid=234)

### **Pensions Age Autumn Conference Agenda**

Location: The London Stock Exchange, 10 Paternoster Square, London, EC4M LJ

Date: 12th September 14

Time: 8:30-16:00

Price: Free

<http://www.pensionsage.com/autumnconference/agenda.php>

**Professional Pensions - Trustee Masterclass**

Location: Le Meridien, Piccadilly, 21 Piccadilly, London, W1 0BH

Date: 30th September 14

Time: 9:00-16:30

Price: Free

<http://events.professionalpensions.com/trusteemasterclass/static/programme>

**SPS Property & Real Asset Investment Strategies for Pension Funds**

Location: Le Meridien, Piccadilly, 21 Piccadilly, London, W1 0BH

Date 9th October 14

Time: 8:30-16:00

Price: Free

[http://www.spsconferences.com/conference\\_details.asp?confid=237](http://www.spsconferences.com/conference_details.asp?confid=237)