Public Document Pack

AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: TUESDAY, 17 NOVEMBER 2015 at 7.00 pm

Committee Room 1
Civic Suite
Catford Road
London SE6 4RU

Enquiries to: **Emma Aye-Kumi**
Telephone: **020 8314 8975 (direct line)**
Email: **emma.aye-kumi@lewisham.gov.uk**

COUNCILLORS

Councillor Chris Best
Councillor Kevin Bonavia
Councillor Simon Hooks
Councillor Mark Ingleby
Councillor Paul Maslin
Councillor John Muldoon
Councillor Liz Johnston-Franklin
Councillor Joan Reid

Observers

Independent
Scott Donaldson, Hymans Robertson

Officers
David Austin, Head of Corporate Resources
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
Lewisham Town Hall
Catford
London SE6 4RU
Date: Thursday, 5 November 2015

INVESTOR IN PEOPLE

ORDER OF BUSINESS – PART 1 AGENDA

Lewisham

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.

PENSIONS INVESTMENT COMMITTEE			
Report Title	MINUTES		
Key Decision	No		**Item No.** 1
Ward	All		
Contributors	CHIEF EXECUTIVE		
Class	Part 1	**Date:** 17 November 2015	

Recommendation

That the Minutes of the meeting of the Committee, held on 2 September 2015 be confirmed and signed.

PENSIONS INVESTMENT COMMITTEE			
Report Title	**DECLARATIONS OF INTERESTS**		
Key Decision	No		**Item No. 2**
Ward			
Contributors	**CHIEF EXECUTIVE**		
Class	**Part 1**	**Date: 17 November 2015**	

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

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

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

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

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

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

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

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

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

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

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

Categories exempt from being prejudicial interest

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

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

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

have finished making representations, or when the meeting decides they have finished, if that is earlier. The member cannot vote on the matter, nor remain in the public gallery to observe the vote.

Prejudicial interests and overview and scrutiny

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

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Performance report from Blackrock		
KEY DECISION	No	**Item No:**	3
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date:**	17 November 2015

1. SUMMARY

1.1. This report sets out the annual performance of the Pension Fund investment mandate with Blackrock to be presented by themselves.

2. RECOMMENDATION

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

6. FINANCIAL IMPLICATIONS

6.1 There are no financial implications arising directly from this 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 fund manager.

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.

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Performance report from UBS		
KEY DECISION	No	**Item No:**	4
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date:**	17 November 2015

1. SUMMARY

1.1. This report sets out the annual performance of the Pension Fund investment mandate with UBS to be presented by themselves.

2. RECOMMENDATION

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

6. FINANCIAL IMPLICATIONS

6.1 There are no financial implications arising directly from this 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 fund manager.

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.

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Performance for the quarter end 30 September 2015		
KEY DECISION	No	**Item No:**	6
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date:**	17 November 2015

1. SUMMARY

1.1. This report sets out the quarterly performance of the Pension Fund investment portfolio as presented by the Council's advisors – Hymans Robertson.

2. RECOMMENDATION

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

6. FINANCIAL IMPLICATIONS

6.1 There are no financial implications arising directly from this 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 8314 9114.

HYMANS ROBERTSON

investment perspectives

Autumn 2015

Welcome to our Autumn edition of Investment Perspectives for 2015.

After stumbling along for a number of months, equity markets came down with a thump in August and September before rallying over October. The worries around China's ability to keep the whole world ticking over had already contributed to commodity prices tumbling late 2014/early 2015. After something of a modest recovery up to the end of June, there was further commodity price fall out in July, leading to the broad return to a "risk-off" environment in August.

Unsurprisingly, Emerging Market equities and currencies have suffered most over this period. So, nearly 14 years after the acronym was first coined, Graeme Johnston revisits the case for the BRICs in our first article.

With so much uncertainty and volatility in listed markets, John MacDonald takes a look at the current state of private equity investing, where those still fortunate enough to be providers of long-term capital can benefit from the so called "illiquidity premium". Recently investors have been having money returned to them at record rates, which begs the question as to whether the asset class can continue to deliver superior returns net of fees in the future.

As a follow up to the last edition's articles on Responsible Investment, the third article in this Autumn edition considers the very topical subject of climate change and exposure to fossil fuels. Simon Jones and Colm Harney assess the options available to investors looking for equity indices that explicitly seek to reduce carbon exposure.

In the final article Rona Train takes a look at the new requirements to produce an annual "Chairman's Statement" as part of enhanced governance for DC schemes.

If you wish to find out more on any of these topics, please contact any of the authors or your usual contact.

Andy Green
Chief Investment Officer

In this issue

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Malaise of the BRICs

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The BRICs acronym (for Brazil, Russia, India and China) made its debut in a Goldman Sachs Global Economics Paper in November 2001. The idea captured imaginations to an extent even the originators could surely not have expected.

Goldman Sachs followed up with a paper suggesting, with suitably reticent qualifications, that the BRICs would be bigger than the biggest six developed economies in a few decades; their rivals grudgingly accepted the acronym, even if only to comment on the flaws in the concept.

The concept of the original paper had been that the growth in the BRICs meant the global impact of their monetary and fiscal policies would become increasingly important and that would have implications for world policymaking forums, such as the G7. In a sense, the circle was completed in June 2009, when Russia hosted the first BRIC summit, at which the four countries' leaders discussed global economic issues. South Africa joined the group in 2011 and what are now the BRICS (with a capital S) will hold their eighth summit in India next year.

The investment community is perhaps a little less high-minded. It is not a huge simplification to suggest that its main interest in the concept has been whether money can be made from it. Fund managers have launched BRICs funds; index providers have provided BRIC indices; and some investors have made specific allocations to BRIC investments. From that perspective, the idea worked exceptionally well for a long while. In sterling terms the MSCI BRIC index quadrupled relative to the (developed market) MSCI World Index in 10 years (see Chart 1). Things have not worked so well in the last five years and the BRIC index has halved in relative terms – taking it back to its highs of 1997. Has the BRIC concept outlived its usefulness or was it ever anything more than clever marketing?

> "The MSCI BRIC index has halved relative to the MSCI World Index in the last five years"

Chart 1

MSCI BRICs v MSCI World
(total return in sterling, 31 Dec 2001 = 100)

Certainly, the outlook for most of the BRICs appears as uncertain as it has done for some time. The Indian economy seems to be performing well, but Brazil and Russia are both struggling with the impact of falling oil prices and, respectively, domestic and international political problems. And, of course, signs of a slowdown in the Chinese economy have dominated the financial headlines in recent months. Ironically, the potential impact on the global economy of the BRICs – as illustrated by its part in stopping the Fed raising interest rates in September – provides some support for the original thesis.

It is probably best to go back to that original thesis to get a proper perspective on the fate of the BRICs. The underpinning idea was that developing economies where governments were open to integration with global markets would gradually see incomes converging with those of developed economies. That is no different to the underpinning rationale for all emerging market investment. Indeed, a big part of the story of the BRICs is the story of emerging markets. The relative performance of all emerging markets is a similar pattern to Chart 1 above, although the highs were nowhere near as high. What the BRICs had in particular, other than a catchy name, were large enough populations to make the convergence process relevant to the global economy.

Chart 2 GDP per capita ($) as percentage of OECD average

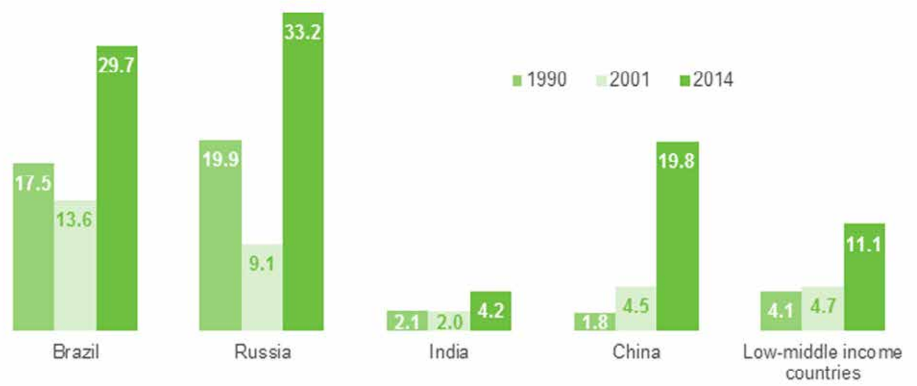

Chart 2 indicates that economic convergence has been impressive in the years since 2001 – it has been driven both by superior growth and currency appreciation. The inclusion of the 1990 comparisons suggests that progress is not always in a straight line. Economic and political risk will always be part of investing in emerging markets, but that does not fatally undermine the long-term convergence story.

The BRICs are an important part of that story – they now represent about 40% of the MSCI Emerging Markets Index – but focusing on them alone seems an unnecessary restriction on the opportunities available in other emerging markets. And even a good investment story is only as good as the price you pay. Whether it's the BRICs or emerging markets in general, the short-term economic outlook may be difficult and the immediate prospects for local financial markets are uncertain. However, the long-term rationale for investment outlined in 2001 still sounds plausible and valuations relative to developed markets are as cheap as they have been for a long time.

The Outlook for Private Equity

John MacDonald

Head of Manager Research

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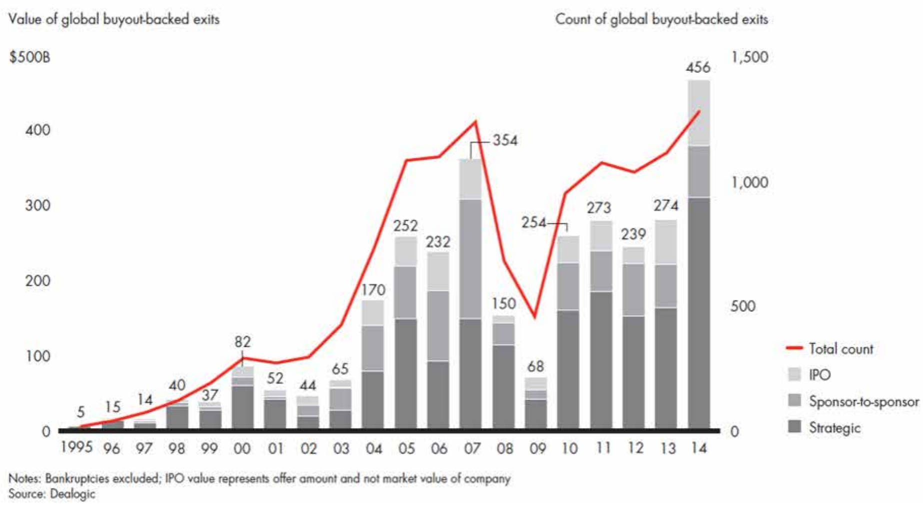
“Dry powder has declined from half of total private equity AUM to around a quarter today. This is a healthy trend.”

We strongly believe that investors should be richly rewarded for the illiquidity, lack of transparency and outsize fees associated with private equity investing. But are they? And more importantly, will they be rewarded in the future? Can private equity deliver?

Right now, private equity seems to be delivering with gusto. The last few years have seen record distributions as profitable exits have been achieved, many from assets that went through a difficult period after being acquired during the boom years before the financial crisis. Since then private equity managers have turned things around, helped by the easy access to credit and record low interest rates that have facilitated refinancing and prevented the large scale defaults and asset write-downs that many predicted in the depths of the crisis. In 2014 the total value of exits reached a record $456 billion worldwide (see Chart 3), meaning that cash flows back to investors outpaced capital calls for the fourth year running. According to Bain & Co, Limited Partners (“LPs”) invested in US buyout funds got back $2.40 for each dollar called in 2014; in European funds, LPs received $2 for every dollar called.

Chart 3



Source: Bain Global Private Equity Report 2015.
Reproduced courtesy of Bain & Company.

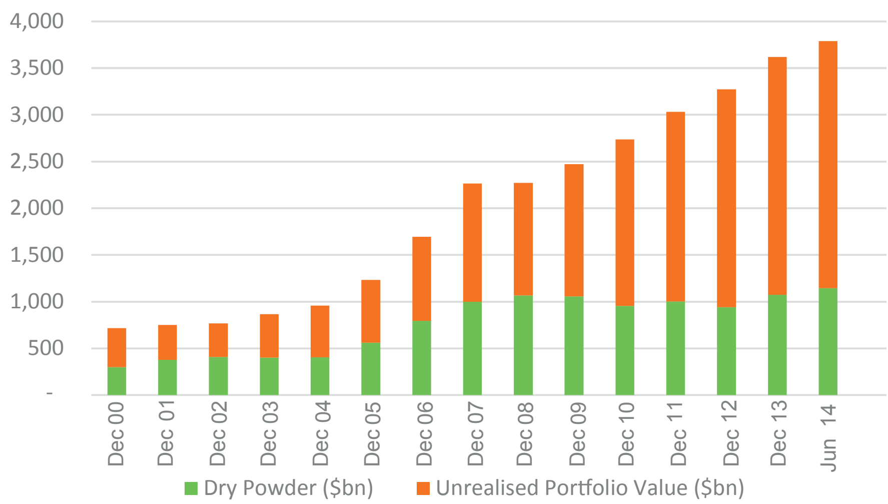
Of course, high rates of distributions now do not necessarily indicate that overall returns to private equity investors have in fact rewarded them for the illiquidity, lack of transparency and outsize fees; and the return figures published by industry bodies and even individual firms often flatter performance. The only way for the individual investor to really assess whether their private equity programme has delivered is to account for every cash flow in and out and compare the net internal rate of return (“IRR”) with a public market equivalent over a reasonable period of time – at least ten years. We did this recently for a client with a long-standing private equity programme and found that it had generated returns of 4% p.a. above the public market equivalent including investing through both the dotcom bubble and the credit crisis. This example provides some hard evidence to support the contention that private equity has delivered in the past.

But can it continue to deliver in the future? The short-term outlook is uncertain. Much of the cash generated in the recent exit boom has been recycled back into private equity, with the industry enjoying a couple of very strong fundraising years in 2013-14, bettered only by the pre-financial crisis years of 2006-08. Fundraising has also been helped by the strength of public equity markets, which has left many LPs below their target allocations for private equity and so encouraged them to increase commitments to new funds. Based on data from Preqin, nearly half of all LPs were below their target allocation by the end of 2014, compared with less than 30% that were underweight at the end of 2012. Unsurprisingly, a large majority of the LPs surveyed by Preqin are looking to maintain or increase their allocations to the asset class in the next 12 months.

One side effect of the strong fund-raising environment has been the continuing high level of "dry powder" (i.e. capital committed to private equity funds and waiting to be drawn down and put to work), which stands at well over $1 trillion. Having a large amount of undrawn capital to hand puts pressure on General Partners ("GPs") to do deals, which tends to increase competition and drive up prices. However, the $1 trillion figure should be seen in context. Preqin data shows that the absolute level of dry powder has stayed broadly constant for the last 7-8 years, while total private equity assets under management has grown by two thirds and now stands at around $3.8 trillion. This means that dry powder has declined from around half of total private equity AUM in the period before the financial crisis to around a quarter today. This is a healthy trend. So also is the fact that the majority of buyers of private equity-owned assets are corporates ("Strategics" in Chart 3). This is in stark contrast to the pre-crisis boom years when a growing proportion of transactions were "pass the parcel" sponsor to sponsor deals.

However, we note that over 60% of the unrealised value in private equity funds today is held in funds of vintage year 2005-2009, indicating that many of those assets have been held for longer than the 3-5 years expected at the time of purchase. The industry has a busy few years ahead of it as it looks for profitable exits from these investments. In the meantime it can expect pressure from investors still paying fees on invested capital.

Chart 4 All Private Equity Assets under Management 2000 - 2014



Source: Preqin

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The flip side to a buoyant exit market is of course a competitive acquisition market, which by some measures has driven price and leverage multiples on private equity deals to levels last seen in 2007. This is being fuelled by healthy levels of dry powder, easy availability of credit and plentiful strategic buyers. With a strong fundraising market, interest rates likely to remain low (despite rumblings from the Fed and the Bank of England), and public markets still at elevated levels, achieving good prices on entry is not getting any easier. At current prices, further growth in price multiples is unlikely to provide a tailwind to help GPs grow the value of assets acquired today. Similarly, with leverage multiples already high, financial engineering will not do the job. This means that private equity looks increasingly vulnerable to any economic slowdown or a rise in interest rates. Some of this vulnerability can be mitigated by accessing the private equity opportunity through secured debt as well as equity, and an increasing number of our clients are doing so.

So the short-term outlook for private equity is mixed. What influence should this have on our assessment of whether it can deliver in the future? None whatsoever. Our belief that private equity can deliver enhanced returns over and above listed equivalents is based not on the ability of GPs to time the market, but on their value enhancement skills, their ability to identify attractive assets, actively engage with management teams to fulfil the potential of those assets and eventually exit them on attractive terms.

Private equity is a long-term asset class, and investors must be prepared to commit to it through multiple economic cycles in order to reap the benefits. Capital committed can take years to draw down and be invested, so it is best to commit to funds at a steady pace, providing vintage year diversification.

Investors must always take a considered approach to their private equity investments, taking good care to understand fund structures, especially with regard to fees. Terms have generally been moving in the right direction in recent years, especially in the fund of funds space, but fees remain high and have the potential to dampen returns significantly. And of course, only those trustees with the appetite for illiquidity and the requisite governance capabilities should invest in this sometimes complex, but potentially highly rewarding asset class.

Low carbon indices

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“Our global economy is almost wholly reliant on the availability of the energy from fossil fuels”

In our Summer issue, we identified carbon exposure as a potential long-term investment risk and set out steps that could be taken to manage this risk.

In this article, we explore alternatives to the standard market-cap index benchmark, which seek to reduce carbon exposure in equity investment. Specifically, these approaches address the two alternative “divest” and “tilt” approaches to carbon risk mitigation.

Divestment through the use of exclusion indices

The concept of excluding unwanted stocks from an index in accordance with a given set of beliefs is not new. Indeed, this is the premise of many ethical strategies. Recognising the focus of the divestment campaign that has sought to persuade investors to remove exposure to fossil fuel companies, indices have been developed that seek to track global stock markets whilst excluding some or all fossil fuel companies. In the examples below, we focus on indices developed by MSCI although we note that FTSE and S&P offer similar products.

- The MSCI ACWI ex Coal Index excludes the 37 companies that own thermal coal reserves for energy production. These represent 2.6% of the index by market cap, and excluding these reduces the exposure of the portfolio to the sources of future carbon emissions by over 50%.
- The MSCI ACWI ex Fossil Fuels Index excludes the 132 companies that own any fossil fuel reserves. These represent 9.3% of the index by market cap, and excluding these reduces the exposure of the portfolio to the sources of future carbon emissions by 100%.

For investors wishing to completely remove exposure to coal, or all fossil fuel companies from portfolios, the use of these indices offers a simple, transparent approach. However, there are some drawbacks that should be considered.

First, these indices focus only on the sources of future carbon emissions by measuring the carbon intensity of the reserves of fossil fuel energy companies, and don’t also consider the carbon intensity of the end-users of the fossil fuels.

Second, excluding a sector of the market will inevitably reduce diversification in the portfolio, and introduces tracking error against a whole-of-market benchmark.

Tilting through low carbon indices

Whilst fossil fuels are the underlying source of carbon emissions, our global economy is almost wholly reliant on the availability of the energy from fossil fuels. A move to a low carbon economy will therefore not only impact the companies involved in fossil fuel extraction, but also the companies who contribute to carbon emissions through the direct or indirect use of fossil fuel reserves. For example (companies using electricity generated from the burning of fossil fuels).

The Greenhouse Protocol is the most widely used accounting standard for quantification of greenhouse gas emissions, with companies being required to disclose both direct (known as Scope 1) and indirect (known as Scope 2) greenhouse gas emissions. As both the producers and heavy users of fossil fuels will be impacted by efforts to move to a low carbon economy, a more refined approach considers both the ownership and use of fossil fuels in determining the “carbon intensity” of each company.

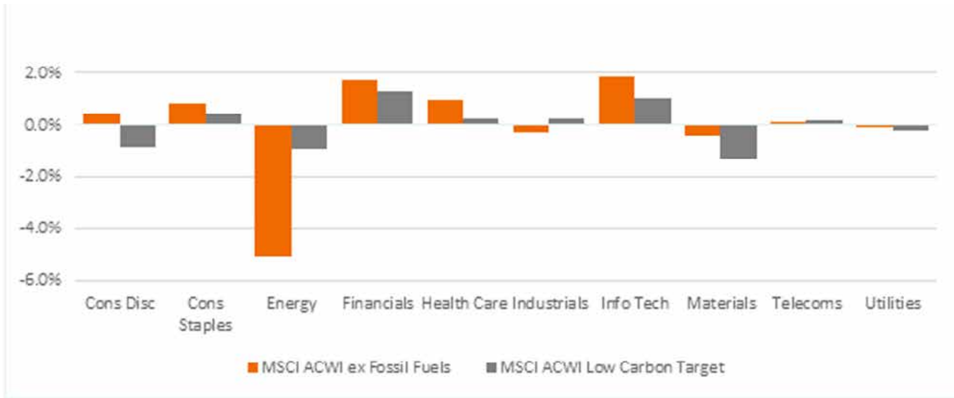
Low carbon indices seek to reduce the overall carbon risk of a portfolio by reweighting the constituents of an index to take account of this "carbon intensity". This approach overcomes the issue of wholly excluding a sector or sectors, thus mitigating the tracking error of the portfolio whilst also serving to "reward" those companies that have lower carbon intensity and are therefore likely to be more resilient in the face of moves to a lower carbon global economy.

One such example is the MSCI ACWI Low Carbon Target ("LCT") Index. This aims to reduce carbon emissions and fossil fuel exposure by at least 50%, while constraining tracking error compared to the MSCI ACWI to 0.3% p.a.. In order to mitigate management costs turnover is constrained to 20% p.a. and sector and country relative weightings are constrained to +/-2% (with the exception of the energy sector, which is unconstrained).

Portfolio biases

For investors considering migrating portfolios from a conventional market-cap approach, it is important to consider the potential biases that may be introduced to a portfolio and the impact this may have on returns. Chart 5 below illustrates the sector distribution of both the ex-Fossil Fuels and LCT indices relative to the market cap index.

Chart 5 Sector Distribution (v MSCI ACWI)



Source: MSCI and Style Research

What can be seen is that the ex-Fossil Fuels index introduces a clear bias away from the energy sector, which is no real surprise given the exclusion-based approach to the index construction. However, although this bias is evident in the LCT methodology, the differences are far lower. This implies that the performance of the LCT index, relative to the market-cap index, will be far less susceptible to the performance of individual sectors than the ex-Fossil Fuels index.

Considering other characteristics of the respective indices demonstrates small biases on both a regional and a company size basis. Chart 6 shows that both the ex-Fossil Fuels and LCT indices are shifted from Emerging to Developed Markets (primarily to North America) and also from smaller to larger companies, although in each case, the shifts are relatively small.

Chart 6

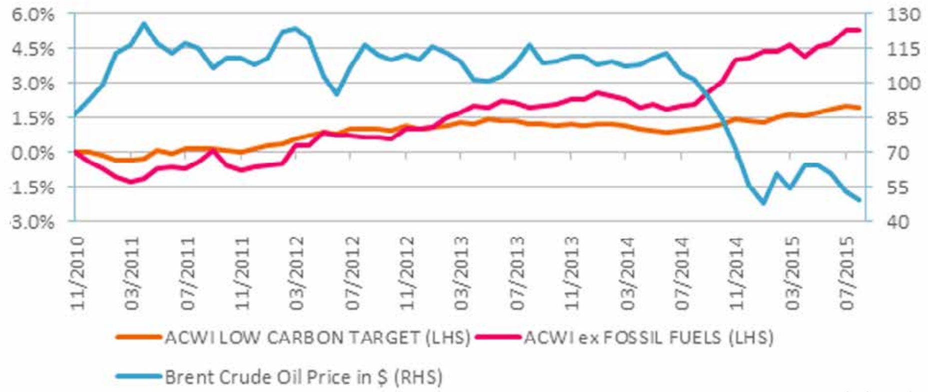
Regional Distribution (v MSCI ACWI) Size Distribution (v MSCI ACWI)

Source: MSCI and Style Research

Is there an impact on performance?

The performance history of these index series is relatively short, dating back just five years. This period has coincided with a period of falling commodity prices which will have impacted directly on energy companies. Chart 7 below illustrates the performance of the two indices relative to the market cap index, with the oil price also shown.

Chart 7 Performance relative to MSCI ACWI



Source: MSCI and Bloomberg

The positive relative performance of the ex-Fossil Fuels index is as expected, particularly in light of the fall in oil price experienced over the second half of 2014. However, if energy prices rebound (which would likely drive strong performance from fossil fuel companies), then we would expect that relative performance from the ex-Fossil Fuels index will turn negative. This suggests that, at least from a short-term performance perspective, timing considerations are likely to be important in the implementation of a divestment strategy.

Conclusion

For investors with passive global equity exposure who believe carbon exposure to be a significant risk, exclusion indices or low carbon indices could offer a relatively simple and cheap method of reducing the carbon exposure of the portfolio while maintaining broad exposure to global equities. We note that any move from market-cap passive equity indices to exclusion indices and, to a lesser extent, low carbon indices, will reduce the opportunities for engaging with management and the ability to influence these companies on their climate change policies.

DC Governance: Chair's Statement – no small task!

Rona Train

Partner

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Over recent years, we have seen a significant "upping of the game" in terms of the governance of DC schemes.

In the latest move aimed at improving member outcomes, any defined contribution scheme will need to produce a Chair's Statement for scheme years from 6 July 2015. For trust-based schemes, this duty (and fines for non-compliance) falls on the trustees. For contract-based schemes the onus falls on the providers' newly created Independent Governance Committees ("IGCs"), overseen by the FCA.

For trust-based schemes, the trustees need to show how the scheme complies with a range of criteria set by the DWP in Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996 No. 1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015 No. 879). In contrast, the IGCs' statements for contract-based arrangements are only at a generic cross-employer level.

While at first glance the requirements might suggest that the Statement will be straightforward to complete, a closer examination reveals that trustees have a significant piece of work to undertake to be able to complete the Statement. And while in theory the Statement does not need to be available until seven months after the end of the scheme year, it must form part of the scheme's report and accounts so in practice will need to be ready significantly earlier than this.

So what do trustees need to review? The main areas covered by the Chair's Statement are outlined below:

a. A statement is required which outlines why the default arrangement has been set up as it has and what the process and timescales are for review. This will also require an update of the scheme's Statement of Investment Principles to ensure consistency.
b. The statement must confirm that financial transactions are carried out promptly and efficiently. This will require liaison with the scheme's administrator and platform provider/fund managers to ensure the necessary data on processing investments is available as well as consideration being given to what is viewed as "prompt and efficient" for that particular scheme.
c. The charges on the default strategy and other funds need to be considered to ensure that they meet the charge cap (where appropriate) and also represent value for money for members.
d. As well as ongoing charges, trustees will also need to consider the transaction costs that are paid on all of the funds offered to members and determine whether these represent good value. This is perhaps the most challenging part of the Statement for trustees to comply with as further regulations are awaited and fund managers are simply not set up to provide this data.
e. Overall, the scheme should represent good value for money for members. Whilst the DWP and FCA are expected to shortly announce what determines "value for money" in the contract-based world, trustees have been left to determine this for their own individual schemes.
f. Trustees must meet Trustee Knowledge and Understanding ("TKU") requirements and show how the board is using advisers to the best effect.

So, not as simple as it seems! And it's a "must do" with, potentially, fines for non-compliance.

But help is here. We have developed a template that will help trustees to understand the steps they need to take and the information they will need to complete the Statement. To keep on top of this, trustees should start planning now to:-

a. Initiate discussions at the trustee board about what constitutes "value for money" for their scheme's members – and it isn't just about charges, so the answer won't be the same for all schemes given the different shapes of membership.
b. Engage with their providers and investment managers to establish how they plan to provide the information on both total member-borne charges and transaction costs.
c. Engage with their administrator to ensure that the reporting provided will be sufficient to fulfil the requirements on the processing of transactions.
d. Review the scheme's training log and training plan to ensure this meets the requirements of the TKU section.
e. Engage with their auditors to establish what they will be looking for in terms of supporting information and formatting of the Chair's Statement to avoid any delay in signing off the next set of scheme report and accounts.

And don't forget that, as well as producing the Chair's Statement, trustees should also be demonstrating how they are complying with the Pensions Regulator's 31 DC Quality Features. So, lots to do indeed!

Market returns to 30 September 2015

Source Datastream:
FTSE All Share
FTSE World Developed ex UK
FTSE All World
FTA Govt All Stocks
FTA Govt Index Linked All Stocks
iBoxx Corporate All Maturities
BofA ML US High Yield Master II
JPM GBI-EM Diversified Composite
UK IPD Monthly
Credit Suisse Hedge Fund
S&P GSCI Light Energy

	Yield % p.a.		Returns to 30 September 2015* (sterling, % p.a.)		
	30 June	30 September	1 year	3 years	5 years
EQUITIES					
Global	2.5	2.7	0.6	9.9	8.2
UK	3.5	3.7	-2.3	7.2	6.7
Developed markets ex UK	2.3	2.5	2.6	11.8	9.9
Emerging markets	2.8	3.3	-12.7	-2.2	-2.4
BONDS					
Conventional gilts	2.4	2.1	8.2	3.5	5.3
Index-linked gilts	-0.8	-0.8	10.5	8.3	8.3
Sterling corporate bonds	3.9	3.9	3.9	5.3	6.2
High yield (US) **	6.9	8.2	-3.6	3.5	5.9
Emerging market debt	7.2	7.4	-16.1	-7.2	-3.1
UK PROPERTY		-	15.7	13.3	10.4
HEDGE FUNDS **		-	0.5	5.9	5.5
COMMODITIES		-	-20.9	-13.7	-5.6

* Property & Hedge Funds to 31 August, 2015 ** Return in $

If you would like to find out more about any of the topics discussed in this publication please contact your usual Hymans Robertson consultant or:

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Pension Investment Committee			
REPORT TITLE	**Pension Investment Committee Pensions update**		
KEY DECISION	No	**Item No:**	7
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	**Date:**	17 November 2015

1. PURPOSE

1.1. This paper provides members with an update on Pension related matters in the last period.

2. RECOMMENDATIONS

2.1. Members are asked to note this report.

3. BACKGROUND

3.1. This briefing will provide a summary of current topics and follows up on action requested in previous meetings.

4. CURRENT CONSIDERATIONS

Pension Board

4.1. The first local pension board met on the 23rd July 2015. Officers are arranging the second meeting for members to update on their training and establish a work plan for 2016.

Actions arising from previous Pension Investment Committee:

4.3 All are covered by items on the agenda for this meeting and will be addressed there.

Collective Investment Vehicle (CIV)

4.4 The Joint Committee continue to meet, with the Chair of PIC attending. The CIV have invoiced the annual service charge of £25,000 per member which Lewisham has paid for 2015/16. The

4.5 The CIV received regulatory approval in October and is therefore now collecting the agreed regulatory capital from members. As agreed at the September meeting, for Lewisham this is £150,000.

4.6 Prospectus for transitioning funds from individual local authority mandates to pooled funds in the CIV are expected shortly. These have not been received to date so no emergency meeting of PIC has needed to be called. When the prospectus is received officers with the support of their advisors, Hymans, will conduct the necessary due diligence and bring forward recommendations to members. Convening a special meeting if necessary to meet any associated deadlines.

Procurement of multi asset mandate

4.7 Following the decision of the September PIC officers have terminated the commodities mandate and initiated the procurement of a multi asset mandate in replacement. An update on progress with this procurement forms part of the confidential agenda item for this meeting.

Triennial fund valuation in 2016

4.8 The fund will be valued by our actuaries at the 31 March 2016. As part of the preparations for this it is proposed to include a briefing on the next PIC agenda to address this. This will explain the principles, assumptions, mechanics and outputs from the valuation.

Government policy changes

4.9 In the summer budget and again in the Chancellors party conference speech the move to six regional Local Government Pension Scheme funds, away from the current 89 administering authorities, was mentioned. Further details and related consultations are expected through the Autumn and into 2016 following the Comprehensive Spending Review. This will likely address the structure and governance for these funds and also their priorities, with the concept of operating more along the lines of a sovereign wealth fund with a focus on funding infrastructure projects to be decided. Officers will continue to monitor these proposals closely and keep members updated.

Team changes and training

4.10 As members will be aware the previous pensions manager left Lewisham at the end of September. This post is being recruited to on a replacement basis.

4.11 Members training continues to be an important part of the annual PIC programme. As requested there is a members session being hosted by M&G on the 25 September at their offices. And as noted above there will be some training on the triennial fund valuation at the next meeting. Should members have identified other training they would like to attend please can they keep the governance team or David Austin informed.

5. LEGAL IMPLICATIONS

5.1. There are no legal implications arising directly from this report.

6. FINANCIAL IMPLICATIONS

6.1. There are no financial implications arising directly from this report.

7. CRIME AND DISORDER IMPLICATIONS

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

8. EQUALITIES IMPLICATIONS

8.1. The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new public sector Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.

8.2. The Council's Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

9. ENVIRONMENTAL IMPLICATIONS

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

10. BACKGROUND DOCUMENTS

10.1. None

For further information on this report please contact:

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PENSIONS INVESTMENT COMMITTEE			
Report Title	Exclusion of the Press and Public		
Key Decision	No		Item No. 8
Ward			
Contributors	Head of Corporate Resources		
Class	Part 1	Date: 17 November 2015	

Recommendation

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

(8) Procurement of Multi-Asset Mandate