



# AGENDA

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## PENSIONS INVESTMENT COMMITTEE

**Date: TUESDAY, 9 FEBRUARY 2016 at 7.00 pm**

**Committee Rooms 1 & 2  
Civic Suite  
Catford Road  
London SE6 4RU**

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### 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

Albert Chen, 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, 28 January 2016**



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

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# Agenda Item 1

PENSIONS INVESTMENT COMMITTEE		
<b>Report Title</b>	MINUTES	
<b>Key Decision</b>	No	<b>Item No.</b>
<b>Ward</b>	All	
<b>Contributors</b>	CHIEF EXECUTIVE	
<b>Class</b>	Part 1	<b>Date:</b> 9 February 2016

## Recommendation

That the Minutes of the last Pensions Investment Committee meeting held on 17 November 2015 be confirmed and signed as a true and accurate record.

# MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

17 November 2015 at 7.00 p.m.

PRESENT: Councillors Chris Best, Simon Hooks, Mark Ingleby (Chair), Paul Maslin, Joan Reid.

ALSO PRESENT: Albert Chen (Investment Consultant, Hymans Robertson).

APOLOGIES: Councillors Kevin Bonavia and John Muldoon.

## 1. Minutes

The Head of Business and Committee informed the meeting that an inaccuracy in the minutes of 11 June 2015 had been discovered after those minutes had been signed. He advised that once minutes have been confirmed they cannot be altered other than by Member resolution to correct the inaccuracy.

RESOLVED that

- a) the minutes of the meeting held on 11 June 2015 approved and signed by the Chair at the meeting on 2 September 2015 be amended in the following respect to correct an inaccuracy subsequently discovered, namely that in the Declaration of Interests section, Councillor Johnston-Franklin should have been shown as declaring an interest as a member of the London Borough of Southwark LGPS;
- b) the minutes of the meeting held on 2 September be confirmed and signed as a correct record.

## 2. Declarations of Interest

None.

## 3. Presentation by Fund Manager - BlackRock

Representatives of the Fund Manager, BlackRock, presented a report on the quarterly performance of its Pension Fund investment mandate.

They highlighted that in Q3 the Fund had outperformed the Index, and explained that BlackRock was lobbying the FTSE to address the issue of artificial tracking on the performance and risk vs. index figures for Japan and the Pacific Rim on the basis that the liquidity profile of the stock was a concern. The inclusion of this information was giving rise to an accounting issue.

In response to questions from Councillors, the Fund Manager stated

- 1) that the Impact Indices measure a range of governance matters including gender diversity, longevity, staff turnover, employee opinions
- 2) that transition to the CIV would cost the Borough £68,000 but that this cost would be offset by savings over time. Bonds could continue to be managed by BlackRock as they are now
- 3) as regards stock lending, returns are split between the Pension Fund and BlackRock on a 62.5%/ 37.5% basis. All costs of the programme are incurred by BlackRock.

Councillor Maslin questioned the ethics of short selling. The Fund Managers explained that short selling increases volatility in the market on a daily basis but that this is balanced by market forces over time. They added that short selling generates an additional return and cannot cause the Fund to suffer a fall in stock value beyond what it owns. The Committee could decide not to short sell but to do so would have to change to a segregated fund which would attract a higher fee.

As regards fossil fuels, the Fund Managers explained that the Impact Indices consider the carbon footprints of listed equity companies as it's a key issue for investors. BlackRock offers ex fossil fuel funds or a segregated portfolio that excludes a specific sector but again, that would have a higher cost and may impact on returns.

The Chair thanked the Fund Managers.

RESOLVED that the report be noted.

#### **4. Presentation by Fund Manager - UBS**

Digby Armstrong of Fund Manager UBS presented a summary report on the performance of its investment mandate in Q3.

He informed the Committee that Q3 witnessed the highest volatility in the market since the collapse of Lehmann Brothers, with the United States seeing the beginning of wage growth and showing signs that interest rates may be increased. There was weakness in the Chinese markets. The UK lagged behind and he predicted that it would be another year before interest rates would rise. The Fund Manager considered the outlook to be reasonable and highlighted that the Fund had received an annualised return of just less than 10% since 2008.

It was noted that UBS provides details of the proxy voting record in its quarterly report.

The Chair asked about ethical considerations. The Fund Manager replied that it is hard to tell whether ethical issues are reflected in the share price but certainly fossil fuels/ carbon footprint is a hot topic for investors. As a passive manager it is harder to influence the market: active managers have greater investor power.

The Chair thanked the Fund Manager.

RESOLVED that the report be noted.

## 5. **Annual Report 2014-15**

Prior to considering this report, the Chair requested that, following the meeting, officers ask BlackRock for its proxy voting record.

The Committee received the Annual Report on the Pension Fund activities for the year ending 31 March 2015, which was supplied with the audited Pension Fund accounts for 2014/15.

The Chair requested that a summary of upcoming training opportunities be included on the agenda front page.

Councillor Best questioned why the Permitted Observer positions on the Committee were largely vacant. The Head of Corporate Resources explained that the Unions were engaged through the Local Pension Board (LPB).

Councillor Hooks asked whether training could take the form of self-learning, for example e-learning. The Head of Corporate Resources agreed that this would be possible and explained that LPB members were keeping individual training records and completing online modules.

Councillor Ingleby, referring to the report's foreword by the Chair of the Pensions Investment Committee, felt that that paragraph 2.4 should be changed to read as follows:

“With the new government signalling its desire to push Local Government Pension Schemes towards pooled investments or structures of an as yet undetermined form, the years of individual LGPS Borough schemes such as ours could be numbered.

And yet, we celebrate the recent birth of the first ever FCA authorised and fully local government owned funds manager, the London CIV (Collective Investment Vehicle), of which we are a member, ready to begin operating later this year as the first ever public sector-run funds manager in the UK financial markets – more than a century after the first wave of municipal-led innovations in our cities.

The CIV offers the opportunities to both save on managers' fees as well as to potentially target socially useful investment, such as some infrastructure projects, without compromising the primary purpose of LGPS funds, to obtain best value for their members' pensions.

The Pensions Investment Committee has also helped to set up the Pension Board, which is able to oversee both our work as well as the actual liabilities

and administration of pension disbursements, in line with recent government requirements.”

Councillor Best pointed out that reference to “Chairman” in paragraph 2.1 of the foreword should be changed to “Chair”.

The Committee’s Investment Consultant, Albert Chen (Hymans Robertson), proposed the following rewording of paragraphs 5.9 and 5.11:

“5.9 The Fund's asset allocation is provided below. Details of the Fund's managers and mandates are set out at 5.16”

5.11 replace last sentence with: “The Fund regularly reviews asset allocations in line with the agreed investment strategy to consider whether rebalancing is required.”

RESOLVED that

- a) the Head of Corporate Resources write to the relevant bodies and re-invite them to appoint representatives to be Permitted Observers to the Committee
- b) the Head of Corporate Resources clarify with the Pensioners Representative on the LPB whether this Representative also wishes to be an Observer of the Committee
- c) the Head of Corporate Resources circulate online training materials to Committee Members
- d) The foreword and paragraphs 5.1 and 5.9 of the report be changed to reflect the changes discussed
- e) the Committee approve the Annual Report subject to the aforementioned amendments and noted the Final Accounts.

## 6. **Quarterly Performance Report – Hymans Robertson**

The Hymans Robertson Investment Consultant (IC) presented the Committee with a report which set out the performance of the Pension Fund investment portfolio and the performance of individual managers for the quarter ended 30 September 2015.

The IC summarised that global equity markets had recorded their worst three month returns in four years but offered reassurance that the Pension Fund’s private equity mandate was performing well and that benefits would be seen over time.

At the previous meeting, the Committee accepted Hymans Robertson’s recommendation to downgrade Schroeders citing staffing concerns. Since then, Schroeders has strengthened its team which, while not enough to raise the score, did offer some comfort that it was addressing the situation to manage the portfolio efficiently.

Of the BlackRock presentation, the IC observed that he was not familiar with the Impact portfolio but committed to looking into it.

The IC highlighted that whereas the BlackRock presentation had been quite detailed and broke the information down into individual funds, the UBS presentation lacked that level of detail. However, broadly speaking, he was comfortable with each of them as passive Fund Managers.

The IC questioned the validity of the alternative beta indices in the 3 down years (02, 08, 11) as the indices were taken subsequent to the reporting period and applied retrospectively. Overall, it was the IC's view that smart beta was a good way of diversifying the portfolio.

RESOLVED that the report and Hymans Robertson appendix be noted.

## 7. **Pensions Update**

The Head of Corporate Resources presented the report.

The Chair informed the Committee that Councillor Muldoon had attended a meeting regarding the CIV, and the Chair read out excerpts of the minutes, notably in relation to Canada and how it captures returns.

The Head of Corporate Resources reminded the Committee of the upcoming visit to M&G Investments on 25 November. He also advised that a triennial evaluation was due in 2016 and agreed to arrange for Hymans Robertson to give a presentation to Members.

RESOLVED that

- a) the content of the report be noted
- b) that the Head of Corporate Resources set a date in January for Hymans Robertson to give a presentation to Members regarding the triennial review.

## 8. ***Exclusion of Press and Public***

RESOLVED that under section 100(A)(4) of the Local Government act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in 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:

9. Update on procurement of multi asset mandate



9. **Update on procurement of multi asset mandate**

The Committee considered a confidential report and received a presentation from the Investment Consultant, which explained the scoring criteria used and how it was applied to produce a shortlist of 6 Fund Managers. The next stage in the selection process would be an all-day event on 10 December. The IC said he would send the Committee a briefing paper a week ahead of the meeting, together with a suggested scoring sheet.

The Chair sought clarification of some of the terminology used, which the IC duly provided.

RESOLVED that the report be noted.

The meeting closed at 9.10 p.m.

# Agenda Item 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision	No	Item No.
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 9 February 2016

## 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.

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Investment Performance for the quarter end 31 December 2015		
<b>KEY DECISION</b>	No	<b>Item No:</b>	
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Executive Director for Resources & Regeneration		
<b>CLASS</b>	Part 1	<b>Date:</b>	09 February 2016

**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.

# Agenda Item 5

PENSIONS INVESTMENT COMMITTEE		
<b>Report Title</b>	Exclusion of the Press and Public	
<b>Key Decision</b>	No	Item No.
<b>Ward</b>		
<b>Contributors</b>	Head of Corporate Resources	
<b>Class</b>	Part 2	Date: 9 February 2016

## 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:-

6. Multi Asset Manager Selection – Hymans Robertson