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MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Wednesday, 12 June 2013 at 7.00 pm

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

APOLOGIES: Councillors Chris Best

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

1. Appointment of Chair and Vice Chair

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

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

2. Minutes

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

3. Declaration of interests

There were no declarations of interest received from Members.

4. Terms of Reference

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

5. Presentation by Investec

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

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

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

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

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

RESOLVED that the report be noted by Members.

6. Update on affordable housing options

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

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

7. Presentation by Hearthstone

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

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

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

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

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

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

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

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

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

8. Introduction to Actuarial Valuation

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

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

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

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

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

Members thanked Mr Robertson for his presentation.

RESOLVED that the report be noted.

9. Investment Performance for Quarter ended 31 March 2013

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

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

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

RESOLVED that the quarterly performance report be noted.

10. Draft Pension Fund Accounts

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

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

RESOLVED that the Committee notes the contents of the report.

The meeting ended at 9.35 pm

Chair:

Date:
