

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Monday, 2 September 2013 at 7.00 pm

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

APOLOGIES: none received.

ALSO PRESENT: Scott Donaldson (Independent Investment Adviser to PIC) (Hymans Robertson), Kathleen Bacon (HarbourVest Partners), Hannah Tobin (HarbourVest Partners), Lynn Coventry (The W M Company), Conrad Hall (Head of Business Management & Service Support), Selwyn Thompson (Group Finance Manager - Budget Strategy), Shola Ojo (Principal Accountant, Budget Strategy), Helen Glass (Principal Lawyer), Daisy Cairns (Committee Officer) and Christopher Whittle (Legal Trainee)

1. Minutes

- 1.1 In relation to Item 5, Scott Donaldson of Hymans Robertson advised Members further about the fee offer from Investec. The original fees were a base fee of 1% and performance fee of 20%. They have volunteered a lower base fee of 0.8% and performance fee which is still at 20% but now has a floor of USD LIBOR plus 3% plus base fee before it is payable, and a cap at 2.5%, which represents a 20% reduction in the regular fee, a higher return before a performance fee is incurred and a limit on that fee during a strong return period. There is also a high water mark structure, so if the fund drops in value, no performance fee is payable on any growth until it rises above the previous peak value again. In response to questions from Members he confirmed that Investec have been asked for examples of how new fees would be applied in practice, including comparative fees from inception under the alternate structure, and that this is a normal type of fee structure for similar funds.
- 1.2 Members instructed officers and advisers to seek further renegotiations with Investec based on their concerns about long term performance compared to sizeable fees paid to date.
- 1.3 It was agreed to amend the penultimate paragraph of Item 9 to refer to Mr Nathan, not Mr Robertson.
- 1.4 **RESOLVED:**
that subject to the above amendment, the Minutes of the meeting of the Pensions Investment Committee, held on 12 June 2013, be confirmed and signed as an accurate record.

2. Declarations of Interest

- 2.1 Cllr Muldoon declared a personal interest, that he has been appointed as substitute member of the Cost and Contribution Sub-Committee of the Shadow

Advisory Board of the Local Government Pension Scheme. This will become a (non Shadow) full Advisory Board in April 2014.

3. Presentation from HarbourVest

3.1 Hannah Tobin and Kathleen Bacon of private equity (PE) fund of funds investment firm, HarbourVest Partners LLC, gave a presentation to the Committee. Due to digital formatting constraints the document cannot be published, but a hard copy is filed with the minutes. The presentation was in four parts: Firstly Ms Bacon covered the HarbourVest company, the length of experience, range of investments and investors and the track record of HarbourVest against alternative investments. Secondly she gave an overview of PE investment, noting the “illiquid” nature of PE investment, the three stages of PE cash flow (Investment, Development and Liquidation), the issues around valuation, and merits and risks of PE. Thirdly the publically traded fund HVPE, and explained that although the net asset valuation (NAV) is very strong, the share price hasn’t recovered from the dip in 2008. She listed steps being taken to amend this, but noted that Lewisham’s investment was above purchase price owing to favourable exchange rate situations with \$US.

3.2 Hannah Tobin then spoke about the overview of Fund commitments LBL have with HarbourVest: Key points noted include:

- From 2006 to end March 13 \$57.8million has been committed with return at \$10.4 million and 22% has been returned (distributed) to date over the last three years.
- There is an IRR since inception of 4.6% which is 8.3% in £ when you take into account the favourable \$ exchange rates.
- 69% are Primary investments with 14% Direct and 17% Secondary
- 47% in US and 42% in Europe
- 76% Buyout and 23% Venture
- During the 2008/9 downturn they were able to hold on to assets rather than being forced to sell
- The 3 highest investments by industry sector are Consumer 19%, Technology 17%, and Industrial 13%.

3.3 Hannah Tobin then discussed the future of Lewisham’s PE investments which are now in a mature, cash generative phase, and they believe the proportion of Lewisham’s funds in PE will drop down below 1% from 2017, our target being 3%. Maintaining this target level would require new commitments over several PE cycles. There were slides showing how HarbourVest suggest LBL could do this, including investing in their Fund IX and HIPEP VII.

3.4 After the speakers from HarbourVest had left the meeting, Members had discussions with Independent Adviser Scott Donaldson, and LBL officers. Key points from this are:

- Hyman Robertson will process the new information from HarbourVest and test it against their own internal models.
- Members were not inclined to make a decision at this meeting on further investment in HarbourVest or other PE companies.
- Conrad Hall suggested that other PE companies should be considered. This was discussed and in response to questions from Members, Mr Donaldson agreed that in his view HarbourVest are a “prime” PE firm and there are only

a handful of other companies at that level. He reminded Members that the fund has recently undergone a dramatic simplification of investment structure and splitting the PE investment would re-complicate the structure. Cllr Maslin queried whether any additional benefit from even a company who was twice as successful, might not be outweighed by the additional internal and external costs, given the low percentage.

3.5 The Chair asked Mr Donaldson and the Group Finance Manager to look into this issue and make recommendations for the committee re future investment. It was not felt that any further Fund Managers need present to the committee unless officers feel it is necessary.

3.6 **RESOLVED**
that the committee note the contents of the report.

4. Presentation from The W.M. Company / State Street

4.1 Lynn Coventry from WM Company (now part of State Street Investment Analytics) spoke to the Committee. The presentation was in two sections, the first about changes in Investments and Returns across the 'Local Authority Pensions Universe', and the second half putting the position of Lewisham's own Pension Fund into context against other UK Local Authority Pensions, including other London Boroughs. The overall conclusions were as follows:

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

4.2 During the presentation and discussions afterwards, the following points were noted:

- Mr Donaldson and Ms Coventry advised the committee of the impact of benchmark type on apparent performance levels, i.e. relative ease of showing good growth against Cash benchmarks.
- Mr Donaldson noted that the "last 12 months" figures shown cover end Mar '12 to end Mar '13, and that Lewisham made major investment changes in Nov. 2012.
- In response to a question from Conrad Hall, Lynn confirmed that the fund's return rate of 12.7% in 2013 does include transaction costs, but doesn't include fees or other management or transition costs .
- There has been an increase in passive management of funds, particularly those who have not had positive experiences in Active management. Around a quarter of the "universe" value is now passively managed and this proportion has stabilised over recent years.
- Ms Coventry was able to provide some context when discussing slide 19 'Risk and Return' of London Boroughs vs. other LA pension funds, although not naming individual authorities. She suggested that there were lower returns where there are higher numbers of fund managers, and that funds who have made significant changes also tend to have lower returns due to additional administration and particularly transition costs.

- In response to a question from the Chair, Ms Coventry suggested that having a long term view of performance and sticking with an investment strategy rather than making change for changes sake was her investment recommendation.

4.3 The Chair thanked Ms Coventry for her presentation and she left the meeting. Members considered the presentation further. Mr Donaldson commented that quite of the information was telling us about problems where action to mitigate has already been taken, changing the bulk of investments from Active Equity mandates to Passive Multi-Asset index tracking in November 2012. Members also considered that the single bracket of “Alternatives” includes hedge funds, currency tools, multi-asset funds, and more, and that “Bonds” covers both Corporate and Government Bonds, and this wide variety should be noted. Mr Donaldson also noted that some very strongly performing funds have also undergone periods of underperformance but have stuck with their managers.

4.4 **RESOLVED**

that the committee noted the contents of the presentation.

5. Investment Performance for Quarter Ended 30th June 2013

5.1 Scott Donaldson from Hymans Robertson, expert independent advisers to the Committee gave a short presentation on quarterly performance. In terms of strategic target investment proportions the fund is slightly overweight in Private Equity and slightly underweight in Property. Members considered the report and the following additional points were raised during discussions:

- He noted that Private Equity reporting always has some temporal distortion with a 3 month delay between benchmark results and PE fund reports.
- In relation to questions on the Property mandate– Mr Donaldson advised Members that there is some ongoing underperformance linked to historic investment in “poor” assets, but from a long term point of view it is better to live with some discount in the asset value rather trying to sell out.
- Cllr Best queried that 12% of the Schroders (Property) mandate was invested in non-UK funds. Mr Donaldson advised that a discretionary limit was agreed with Schroders on investment in non-UK property assets which is in line with other Fund of Fund property asset funds. He offered to report back to the committee on when this began and what the limit is.

5.2 **RESOLVED**

that Members note both the report and the appendix from Hymans Robertson on last Quarter’s investment performance.

6. Update on Local Government Pension Scheme reform

6.1 Selwyn Thompson, Finance Group Manager, Budget Strategy presented a report to Members on the reforms to Local Government Pensions being introduced and proposed by the Department for Communities and Local Government. Two of the consultations were now closed and when published responses will be shared with members.

6.2 Members considered the report and the following opinions and issues were noted, although these were not necessarily unanimous:

- concerns as to how an amalgamation of funds would work, particularly on dealing with deficits and differential funding levels.
- noted that concept has already been successfully proven by London Pensions Funds Authority – a merger of some local funds.
- concerns on loss of local sovereignty in terms of accountability
- concerns about loss of local sovereignty in terms of employer contributions and consideration of local budgetary pressures.
- potential for efficiency gains should at least be examined.
- interested in different models and structures – ways of collaborating
- need to look at the potential dis-economies of scale.
- noted that a benefit of current diversity is comparison between different funds – e.g. how this spurred Lewisham to change strategy
- concern about effect on competition between companies– increased dependence of funds on holding shares in particular companies – impact on management behaviour and on future of shareholder activism?

6.3 Cllr Muldoon offered to keep Members informed of any news from the LGPS (Shadow) Advisory Board. Mr Donaldson explained that Hymans Robertson will be submitting evidence to the DCLG and volunteered to share this with Members.

6.4 Helen Glass, Principal Lawyer, noted that the framing of the questions within the Call for Evidence is asking for proposals for improvement, requesting data and information which is expected to inform a later detailed consultation document which may be more suited to a response from Members. The Chair then asked Mr Thompson to record Members' views and retain them for inclusion in a future response.

6.4 **RESOLVED**
to note the report.

The meeting ended at 9.05 pm

Chair:

Date:
