

LONDON BOROUGH OF LEWISHAM

MINUTES of the meeting of the INVESTMENT SUB-COMMITTEE, which was open to the press and public, held on WEDNESDAY, 3 FEBRUARY 2010 at 6.30 p.m.

Present

Councillor Smith (Chair); Councillor Bentley (Vice-Chair) and Councillor Klier.

Scott Jamieson - Independent Investment Adviser

Apologies for absence were received from Councillor Luxton.

| <u>Minute No.</u> | <u>Action</u> |
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| 1. | <u>MINUTES</u> RESOLVED that the Minutes of that part of the meeting of the Investment Sub-Committee, held on 28 October 2009, be confirmed and signed. |
| 2. | <u>DECLARATIONS OF INTERESTS</u> None. |
| 3. | <u>POSITION STATEMENT ON THE PENSION FUND</u> |
| 3.1 | The Group Manager (Capital and Treasury), presented the report. He said that the value of the Fund had increased by £14.38m, since the last meeting, with gains in all classes. There had been concerns about the performance of RCM at the last meeting and the Independent Investment Adviser had been asked to carry out a review of the validity of their investment process. |
| 3.2 | The Independent Investment Adviser said that he had been to RCM to meet Lucy McDonald. There had been improvement in the performance at RCM and at the same time market conditions had improved for this growth manager. Ms McDonald had produced two tables on style factors that were circulated at the meeting. The first table entitled "style factors since March 2009" for the period between February and August 2009, was typified by hostile circumstances for growth managers like RCM which was in sharp contrast to the previous period when RCM were appointed. The second table showed that poor performance was compounded because their growth investment style did not perform. Ms McDonald admitted that their investment style did not perform well when growth styles were not outperforming |

Minute No.

Action

other styles.

- 3.3 In conclusion, the Independent Investment Adviser said that he considered that RCM were a competent growth manager. They had performed well during the last quarter and their investment style was still valid.
- 3.4 The Fund was overweight with assets managed by Bernstein. The Independent Investment Adviser considered that it was time to begin to reduce this value overweight. He said that value stocks were driven by healthy balance sheets. The chart entitled "Interplay between Value and Credit" showed that companies had improved balance sheets and were not likely to improve much more in the near future. He recommended that the fund was reduced from 2% overweight to neutral on value. Councillor Klier asked how long it would take to rebalance the mandates. The Group manager (Capital and Treasury) said it would take less than a week.
- 3.5 At the last meeting the Investment Sub-Committee had agreed to allocate 3% of the fund to M & G. This investment case still remained valid, however, companies were able to get reasonable lending rates from banks at present. The Independent Investment Adviser said that M & G had anticipated an investment opportunity in the coming months as banks are forced to refocus on their balance sheets.
- 3.6 Officers will identify a preferred manager who will make a presentation to Members at Pensions Investment Committee on 25 February.
- 3.7 Councillor Klier said that at the last meeting it had been agreed that Schroders be given an extra 2% of the fund to return the manager to their strategic allocation in property. At the time Schroders had been reluctant to invest and she asked whether the money had now been invested. The Group Manager said that money was given on condition that it was invested in property and they had now identified opportunities in property. There had been articles in the press stating that property offered good investment opportunity. Schroders, however, considered that it may be a little early to invest. The Independent Investment Adviser considered that Schroders had been over cautious and had missed the opportunity to invest when the value of properties dipped to its lowest point.
- 3.8 Members agreed to rebalance the fund as outlined in paragraph 3.12 of the report.

Minute No.

Action

- 3.9 The Independent Investment Adviser said that he had produced a paper on stagflation because he wanted to address a potential scenero which he considered to be a meaningful threat to pension schemes. The economy remained 'lack lustre', the cost of living continued to increase and wage growth remained weak. Commodities remained attractive because they relied on discretionary spending. Currencies continue to struggle and long term investment in government bonds was poor.
- 3.10 Index linked gilts performed well because of government guarantees and the Independent Investment Adviser said that he intended to consider index linked bonds opportunities and how the pension fund may make focused investments in securities akin to US or Australian index-linked bonds. He also intended to submit a paper on government bonds to this Sub-Committee.
- 3.11 Councillor Klier referred to slide 5. She asked where the US was on the chart. The Independent Investment Adviser said that it was above McDonalds and below the UK.

RESOLVED that

- (i) the position of the Pension Fund as at 22 January 2010 be noted;
- (ii) the report and the confidential appendices be noted;
- (iii) the proposal to rebalance the Pension Fund, as set out in paragraph 3.12 of the report, be agreed and the execution and timing of this be delegated to the Executive Director for Resources; and
- (iv) a report from the Independent Investment Adviser be submitted to this Sub-Committee on index linked stocks and a structure proposed on bonds.

4 EXCLUSION OF THE PRESS AND PUBLIC (page

RESOLVD 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 it involves the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act:-

Minute No.

Action

Appendices to Item No 3 on the Open Agenda

The following is a summary of the item considered in the closed part of the meeting:

Appendices to Item No 3 on the Open Agenda were noted.

The meeting ended at 8.20 pm

Chair