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Lewisham

AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: THURSDAY, 24 FEBRUARY 2011 at 7.00 pm

Council Chamber
Civic Suite
Lewisham Town Hall
London SE6 4RU

Enquiries to: Evelyn Akoto
Telephone: 0208 314 9678 (direct line)

COUNCILLORS

Councillor Whittle (Chair)
Councillor Maslin (Vice-Chair)
Councillor Allison
Councillor Best
Councillor Feakes
Councillor Fletcher
Councillor Muldoon
Councillor Wise

Observers
Mrs C Humble) Pensioners' Reps
Mr D Tucker)
Mr Foster UNITE
Mr J Hale UNISON

Independent Investment Adviser
Mr S Jamieson

Officers
Janet Senior –Exec. Dir. for Resources.
Jim Ricketts – Interim Group Manager (Capital and Treasury)
Carol Eldridge – Group Manager (Pensions & Payroll)
Alex Robertson – Fixed Asset Accountant

Members are summoned to attend this meeting

Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 15 February 2011

INVESTOR IN PEOPLE

ORDER OF BUSINESS – PART 1 AGENDA

PENSIONS INVESTMENT COMMITTEE			
Report Title	**MINUTES**		
Key Decision			**Item No. 1**
Ward			
Contributors	**CHIEF EXECUTIVE**		
Class	**Part 1**	**Date: 24 February 2011**	

Recommendation

That the Minutes of that part of the meeting of the Committee, which was open to the press and public, held on 18 November 2010 be confirmed and signed.

LONDON BOROUGH OF LEWISHAM

MINUTES of the meeting of the PENSIONS INVESTMENT COMMITTEE, which was open to the press and public, held on THURSDAY, 18 NOVEMBER 2010 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 6.30 p.m.

Present

Councillor Whittle (Chair), Councillors Maslin, Best, Feakes, and Fletcher,

Observer: Mr Tucker

Independent Investment Advisers: Peter Summers, Scott Jamieson and Scott Donaldson

Apologies for absence was received from Stephen Foster from Unite, Councillor's Allison, Muldoon and Wise.

Minute No.		Action
1.1	MINUTES	
	• With regards to matters arising from the meeting on 1st September 2010, the Chair stated that the briefing on management arrangements will be reported to the committee in February 2011 (4.7 of 1 September minutes).	Scott Jamieson/ Scott Donaldson
	• In response to a question by Cllr Feakes at the 1st September 2010 meeting (6.2 of 1 September minutes) the Chair replied that a review of other councils arrangements will be incorporated into the report coming to the committee in February 2011.	ED Resources
	• Following a query by Cllr Feakes in the 1 September meeting (7.1 of 1 September minutes) - 'why the additions due to the pension fund was shown as a debit instead of a credit', the Chair confirms that this complies with the format required by Statement of Accounting Practice (SORP)	
	• With reference to 4.4 of 1 September meeting. Cllr Feakes inquired about investments being environmentally sound and sustainable.	E Akoto
1.2	RESOLVED that the Minutes of the meeting of the Committee, held on 1 September 2010, be confirmed and signed.	
2.	DECLARATIONS OF INTERESTS	
2.1	The Chair declared a personal non prejudicial interest as a member of the Lewisham Pension Scheme.	

Minute No. Action

2.2 Councillor Best declared a personal non prejudicial interest as a member of the Lewisham Pension Scheme.

2.3 Councillor Maslin declared a personal non prejudicial interest as a member of the Lewisham Pension Scheme.

3. 2010 REVALUATION OF PENSION FUND

3.1 The Committee received a report from Peter Summers from Hymans Robertson and Co.

The presentation outlined the outcome of the 2010 revaluation of the pension fund which is statutorily required every three years. The LGPS is essentially a pot of cash designed to pay benefits to members and the revaluation can be considered as an MOT of the pension fund.

Revaluation is an exercise to assess whether the fund has sufficient assets to fund its liability to pay pensions. As the liability to pay pensions relates to periods up to 70 years in the future the revaluation necessitates numerous assumptions being made to which the results are extremely sensitive.

The 2010 Revaluation exercise has indicated that the funding position has deteriorated with the liabilities of the fund increasing by £105 million to £945 million whilst the corresponding value of assets has reduced by £20 million to £715 million. The net impact of these two factors was that the funding position had deteriorated by 11.7% from 87.4% to 75.7%.

The deterioration in funding is attributable to increasing life expectancy and low investment returns. These factors were only partially offset by the positive impact of the Government decision to base pensions increases on the Consumer Prices Index (CPI) rather than the higher Retail Prices Index (RPI) and the decision to freeze the majority of public sector salaries for two years.

The revaluation has indicated that there needs to be an increase in the employer contribution both to fully fund additional pension liabilities accruing and to recovery the deficit over 20 years. However the Actuary has after extensive financial modelling developed a stabilisation mechanism which contains the increase within affordable limits..

The stabilisation mechanism recognises the interdependencies between the investment strategy and contribution rates and the uncertainty of future investment returns. The modelling and discussions with Officers has enable the stabilisation mechanism to be applied without prejudicing the long term viability of the fund.

3.2 Councillor Best asked about the age profile of workers who have deferred their pensions. Peter Summers replied that it could be lower than active members, possibly around the mid 40s age range.

3.3 The Executive Director For Resources stated that there is a gap, in the age profile around the 30 year range and that the average age of the work force is increasing. This has been partially offset by recent recruitment which has primarily involved younger workers . Going forward the impact will depend on the composition of the forthcoming savings policies. and in particular whether it involves extensive use of early retirement. This will impact on the maturity of the fund and the investment strategy.

3.4 Mr Tucker asked who decides what is a bad or good time in the investment cycle as nobody seems to think times are good. Scott Donaldson answered that the modelling being used is the joined up way of doing revaluations and the modern way of allowing contribution and investment strategy to be linked together. The approach also helps get through a difficult revaluation that it demonstrates that in the long term stabilisation does not make a major difference to the fund.

3.5 The Executive Director for Resources, also commented that the next evaluation is in three years time, so in theory you look at constraining 3 years before you review the fund again.

3.6 Councillor Best asked that in terms of underfunding, what is the bench mark of how underfunded the pension fund can be. Peter Summers replied that there is no benchmark, but Lewisham is one of the better funded and prudent schemes. .

3.7 The Executive Director for Resources commented that the strategy for the last three years has been a 1% increase and what is being considered is a 0.5% increase. What we are doing is be prudent going forward but mindful of what might come with the Hutton report.

3.8 RESOLVED That

- the contents of the report be noted and
- the report be forwarded to the Council's Mayor and Cabinet for incorporation into the 2011/12 Budget Report;

4. 2010 PENSION FUND FINANCIAL MODELLING

4.1 Scott Donaldson from Hymans Robertson introduced the report to the committee.

This reports sets out the stabilisation mechanism which enables the increase in the contribution rate as set out in the revaluation report to be affordable. Currently 0.5% increase is required per annum until reviewed at the next revaluation.
Development within the fund suggest that it is appropriate at present to reduce exposure to riskier assets, but this does have to be done immediately.

4.2 Councillor Feakes asked whether it will be best for decisions to be made at times of lower volatility, and further asked whether this is the best time to change directions. Scott Donaldson replied that the key thing in modelling is looking at the long term perspective. If we were at a time when volatility figures were lower, it will change all the results, but you will still see similar pictures.

4.3 Councillor Maslin raised concerns that the management of the fund is slow in terms of decision making and commented that there is not enough market knowledge about pricing. Scott Jamieson commented that active managers are employed to be active within their own sphere but it is difficult to incorporate consideration of the wider pension fund perspective into this process

4.4 The Executive Director for Resources pointed out that the investment strategy is set out at the beginning of the year and decisions are made by council which may slows the decision process.

4.5 RESOLVED

- that Officers be instructed to prepare a further report on the investment manager structure for the February 2011 Committee meeting. ED Resources

5 INVESTMENT PERFOAMNCE FOR QUARTER ENDED 30 SEPTEMBER 2010

Minute No. Action

5.1 Scott Donaldson presented the report to the committee. The presentation sets out the performance of the pension fund investment portfolio and that of the individual managers for the quarter ending 30th September 2010 and a commentary on the prospects for investment markets. The presenter highlighted the poor performance of the active Managers.

5.2 The Chair commented that information in this report will be looked at again in February 2011.

5.3 RESOLVED that the report be noted

The meeting ended at 8.35p.m.

LONDON BOROUGH OF LEWISHAM

NOTES of an inquorate meeting of the PENSIONS INVESTMENT COMMITTEE, which was open to the press and public, held on THURSDAY, 24 FEBRUARY 2011 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7 p.m.

Present

Councillor Whittle (Chair), and Muldoon.

Independent Investment Advisers: Scott Donaldson

Alliance : Nicholas Davison, Senior Portfolio Manager
Douglas Steward, Director – Client relations

RCM: Paul Schofield, Director Portfolio Manager/Global Equities
Bibi Tabisim, Director/Head of Institutional Client Servicing

Apologies for absence was received from Councillors Allison, Feakes, Maslin, and Wise

Apologies for lateness was received from Councillor Fletcher

Minute No.		Action
1	MINUTES	
	As the meeting was not quorate the minutes would be resubmitted for approval at the next scheduled meeting.	
2	DECLARATIONS OF INTERESTS (page	
	There were no declarations of interest.	
	The Chair requested that the scheduled presentations go ahead.	
3.	RCM PRESENTATION	
3.1	Bibi Tabisim and Paul Schofield introduced the report and invited questions.	
	Councillor Muldoon asked if performance in the portfolio was attributable to a small number of stocks or if in all stockholdings.	
3.2	The Portfolio Manager replied that performance was fairly evenly spread amongst the holdings but to achieve performance above the market it was necessary to be overweight in some stocks	

which inevitably increased risk. The risk is stock specific rather than related to the market.

3.3 The Independent Adviser commented that seven of the stocks had outperformed, and enquired if the outperformance was concentrated in a small numbers of names. The Portfolio Manager replied that the strategy is to have a good spread of names across sectors and across the globe so that no one sector is driving the return of the fund. The current portfolio is not as evenly spread as we would like but the market is currently based on two factors, the US economy and energy materials and that is the two things we have concentrated on. We would like to see a wider spread but scope is limited.

3.4 The Independent Advisor commented that given the situation in North Africa and the Middle East, there is the possibility of political/economic shocks, and asked how will the portfolio would fair if this political unrest impacts.

3.5 The Portfolio Manager stated that the portfolio is diversified to reduce risk and there are consequently a number of stocks held specifically for this reason. The geopolitical shocks we are seeing right now, clearly have implications for oil prices. These however represent a relatively small part of total firm costs. However whilst at the firm level they will not be a factor it is necessary to factor in the impact on the general level of economic activity.

3.6 The Chair commented that not long ago there were concerns with RCM's poor management of the portfolio, however this has improved in the last quarter.. The Chair asked for more clarification on what is being done differently to have encouraged this improvement in this last quarter; and how can the committee be convinced that this will be sustained. The manager indicated that the market had recently recognised the quality approach to investment adopted by the manager. There had been no change in the manager's approach but the manager had experienced similar cycles before and remained convinced that the investment approach would deliver long term performance.

3.7 The Chair commented that although the market is said to be improving steadily, the committee is looking to move more into passive mode; and so asked why RCM's style is going to be any more beneficial.

3.8 The Portfolio Manager said that a passive approach was obviously dependant on the market whilst RCM's approach which concentrated on individual stocks and intensive research lessened this dependency.

Minute No. | Action

3.9 Councillor Muldoon further commented that reviewing past progress, it would suggest that a more passive approach would be the best option. The Portfolio Manager agreed that it was a fair comment but stated that timing was key, as was a long term investment. Clearly there were other issues to consider and he wanted to give members confidence that they were doing things they believe is the right way and again those periods of underperformance had passed as things change within the market and numbers were still solid.

3.10 The Chair asked if the Portfolio Manager had any more thoughts on the impact of the current political situation. The Portfolio Manager replied that it is fortunate that not many of the stocks have any direct exposure to Libya, and Libya isn't a major player in the oil market. The real worry is the contagions affect in the region. If the unrest moves to Saudi Arabia then things may get difficult and the oil prices will rise; and that is the biggest risk I think we have right now. What we have done in the energy portfolio is diversify the asset base, oil stocks are raising, but we are managing the risk within the sector quite sensibly. In the last 6 month energy has added more than other sectors in the portfolio because of shocks like this, you have to be patient - its a dangerous business and the risk in this sector is much higher.

4 ALLIANCE PRESENTATION

4.1 Nicholas Davison and Douglas Steward introduced the report and invited questions.

4.2 With regard to Japan Tobacco which had been sold at a loss the Accountancy Assistant asked how and when it is decided that a wrong decision has been taken. The Manager replied that it will be when you begin to see unexpected patterns in share price behaviour. It is difficult to determine how long it will take to decide this. Japan tobacco had taken over a year. However, holding stocks for two to three years is the typical pattern.

4.3 The Independent Advisor commented that the argument appears to be that for this portfolio to outperform, you need the world to return to a comfortable position. He asked what the affect will be on the portfolio if the political unrest in North Africa and the Middle East continues. The Manager replied that the emerging markets continued to outperform even though there is a high exposure to oil spikes. The portfolio has exposure to marginal oil producers which it is anticipated will benefit from oil price increases and instability in the middle eastern producers.

4.4 The Independent Advisor commented that the key message is that trading out of this portfolio now will be trading at a time of low valuation of the market. And if we do have additional shocks and have a period that is difficult for the value of the portfolio to outperform we will move yet further beyond the period of time which is reasonable for the committee to be patient or cut the losses.

4.5 The Manager replied that he could not predict what will happen. I thought January was an interesting month as growth was driven much more by industries and specific factors and that's is how markets normally work. We saw this at the start of last year and I think everything happening until the crisis in Libya suggest this will continue – that economic growth will be reasonably robust. Anxiety in markets are coming down but something could throw that off course, but that is the nature of investment. The dilemma is cutting losses by selling out at this point and missing the other side when stocks out perform.

4.6 The Chair asked for more information on the type of bonus regime and reward scheme that they have in place.

4.7 The Senior Portfolio Manager stated that for investment professional, analyst and portfolio managers, typically the greater part of the annual remuneration, is in the form of a bonus and the obvious benefit of that is that it is related to performance and the value of the fund. The performance will affect your annual pay. Performance in terms of your own, your portfolio and the firms overall performance. For example In 2008 people did take big pay cuts, so bonus is an important part of the way we are paid, and is typically deferred over four years.

4.8 The Chair asked what would the message be to the committee if they were thinking of moving to other equity Managers who have performed much better than Alliance Bernstein.

4.9 The Manager replied that unfortunately past performance is a poor gauge to the future. Investment styles deliver performance differently in different periods. We are in a period where we expect our style of performance to do very well and the risk is that by moving the Council will not benefit from improvement in performance.

4.10 The Independent Advisor asked them to quantify the level of under valuation of the portfolio relative to the market. The Senior Portfolio Manager confirmed that this information is available and so will send it to the committee.

Minute No. Action

The meeting ended at 8.20p.m.

Agenda Item 2

PENSIONS INVESTMENT COMMITTEE			
Report Title	**DECLARATIONS OF INTERESTS**		
Key Decision			**Item No. 2**
Ward			
Contributors	**CHIEF EXECUTIVE**		
Class	**Part 1**	**Date: 24 February 2011**	

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	**Review of Fund Investment Structure**		
Key Decision			**Item No. 5**
Ward			
Contributors	**Executive Director for Resources**		
Class	**Part One**		Date: **24 February 2011**

1. SUMMARY

1.1 This report sets out the broad outline of the future structure of the management of the Pension Fund's investments and recommends that the Council's investment advisors Hymans Robertson be instructed to prepare a detailed report on implementation for the next meeting of this Committee.

1.2 The report comprises the following sections:

2. Recommendations
3. Background
4. Existing Structure of Fund
5. Passive and Active Management
6. Implementation
7. Financial Implications
8. Legal Implications

2. RECOMMENDATIONS

Committee is recommended to ;

2.1 Instruct the Council's investment advisors, Hymans Robertson, to prepare a detailed report on the implementation of an investment structure which corresponds to the principles as set out in section 6.1 of this report.

3. BACKGROUND

3.1 Members had requested a briefing on the alternative arrangements for the management of the Fund's investments principally because of the continuing disappointing performance of the existing active managers.

3.2 A Member briefing conducted by the Fund's advisors, Hymans Robertson, was held on 18th January 2011 with the objective of determining Members' requirements, and on the basis of this devising a broad investment strategy and structure for the Fund.

3.3 A summary of the presentation and the conclusion of Members is the subject the remainder of this report.

4. EXISTING STRUCTURE OF FUND

4.1 The current structure of the fund is as set out below. The structure has evolved over a period of ten years as a result of various reviews conducted by the Fund's investment advisors, the last of which was undertaken in June 2009.

Table 1: Current Portfolio

Manager	Mandate	Appointed	Target Value £ Million	Relative Performance Since Inception
Alliance Bernstein	Global Equity	1 Nov 2004	154.8	-2.50%
RCM	Global Equity	18 Sep 2008	154.8	-5.00%
UBS	UK Equity (Passive)	27 Feb 2008	112.6	0.20%
UBS	Fixed Interest	28 Feb 2008	112.6	-0.60%
Schroders	Property	12 Oct 2004	70.4	-0.80%
Fauchier	Hedge Fund	28 Jun 2008	21.1	-5.50%
Investec	Commodities	25 Feb 2010	35.2	-2.50%
Harbourvest	Venture Capital	29 Jun 2006	21.1	-0.80%
M&G	Credit	1 May 2010	21.1	
			703.7	

4.2 The table indicates that all the managers with the exception of the UBS tracker fund have failed to achieve their benchmarks. The underperformance of the Lewisham Fund, relative to other LGPS funds, is largely attributable to stock selection by individual managers rather than the asset allocation of the overall Fund.

4.3 It should be recognised that the managers have been appointed for relatively short periods of time and that it is arguably more appropriate to measure manager performance over a full economic cycle. In addition, a study by Hyman Robertson into the performance of their (global equity) manager recommendations has indicated that the economic environment in 2008, when a number of the appointments were made, was particularly difficult for a number of their preferred active managers.

4.4 The current structure is based on a number of principles which may be summarised as:

- Diversification is beneficial;
- Targeted active management can add value, and;
- Specialist managers are preferable to generalists.

4.5 The key issue for debate is the Committee's view of active versus passive investment management.

5. PASSIVE AND ACTIVE MANAGEMENT

5.1 Passive investment management involves structuring a portfolio that is designed to "track" a specific index. The passive approach achieves average returns and essentially incorporates the composite investment strategies of active managers within the particular asset class. The advantages and disadvantages of passive management may be summarised as :

- Advantages

  Lower management fees.

  Stability of relative returns.

  Low transaction costs relative to active management.

  Diversity of investments.

  New approaches to passive management (such as "fundamental indexation") are available, which counter some of the disadvantages below and are gaining traction in the marketplace. They are potentially worth further investigation for this mandate.

- Disadvantages

  Potential opportunity costs – no scope for added value relative to the index and potential risk of moving out of active portfolios at "inopportune" times.

  If tracking a market capitalisation based index, there is the inherent issue of needing to buy more of stocks that become more expensive, and sell stocks that become cheaper.

  Potential concentration of investment in individual companies because of structural issues in markets (e.g. the UK equity market). Newer approaches such as "fundamental indexation", where the portfolio is constructed according to rules based on the valuation of stocks within the universe, can mitigate this risk.

  Tracking "momentum driven" markets may create volatility, e.g. dotcom bubble.

  The additional risk, at total Fund level, from active management is low and can act as a diversifier from the strategic risks being run.

5.2 Analysis indicates that active managers in aggregate deliver average performance (before fees). Consequently, the issue is the ability to select the best performing managers and to change them before performance declines. Manager performance is however cyclical and the costs of transition between managers is high. Consequently there are considerable risks associated with an active approach to management.

5.3 Members considered that the Fund's experience of active management indicated that the passive approach provides an opportunity to achieve average returns without the volatility and uncertainty associated with active management.

5.4 Members concluded that having a significant proportion of Fund assets managed passively was consistent with their investment beliefs. The Committee's expectation is that the Fund's principal holdings in equities and bonds could be passively managed. The Committee remains prepared to consider active management for those elements of the Fund either where passive management is not a viable option (e.g. property), or where the Committee believes the targeted use of active management may be more beneficial.

5.5 Members did however recognise that the costs of any transition would be significant and that timing would be critical. Consequently the change should be phased and determined by market conditions.

6. IMPLEMENTATION

6.1 The broad principles which Members have established for the future direction of the Fund may be summarised as :

- Core assets to be passively managed.
- Number of managers to be minimised where possible.
- Transition to new structure to be phased to maximise value from existing managers' holdings.

6.2 A preliminary review suggests that the core index fund representing 76% of the total fund assets will potentially comprise the equity and fixed interest mandates which are currently managed by UBS, Alliance Bernstein and RCM. There are, however, issues to consider on which index to track and the basis on which individual stocks are to be weighted. This requires further detailed investigation.

6.3 The residual element of the fund has a diverse range of asset classes for which there are a number of options for the structure going forward. This again requires detailed investigation and advice.

6.4 It is recommended that Hymans Robertson be instructed to prepare a report to the next meeting of this Committee detailing the options for the restructuring of the fund on the broad principles outlined by Members in section 6.1, and a detailed timetable for implementation.

7. FINANCIAL IMPLICATIONS

7.1 Restructuring of the Fund will inevitably involve considerable costs and such costs will need to be factored into any proposals.

8. LEGAL IMPLICATIONS

8.1 The investment of pension funds is a statutory function and is undertaken by the administering authority in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The aim of the investment is, acting prudently with regard to risk, to obtain the best return on the fund investments.

8.2 An administering authority must formulate a policy for the investment of its fund money with a view to the advisability of investing fund money in a wide variety of investments and to the suitability of particular investments and types of investments. The authority must consider the advice of its independent expert in taking any steps in relation to its investments.

Pensions Investment Committee			
Report Title	**Investment Performance for Quarter Ended 31st December 2010**		
Key Decision			**Item No. 6**
Ward			
Contributors	**Executive Director for Resources**		
Class	**Part One**	Date: **24 February 2011**	

1. SUMMARY

1.1 This report sets out the performance of the pension fund investment portfolio and that of the individual managers for the quarter ending 31st December 2010.

1.2 The report comprises the following sections:

2. Recommendations
3. Background
4. Portfolio Summary
5. Conclusions
6. Financial Implications
7. Legal Implications

2. RECOMMENDATIONS

Committee is recommended to note the contents of the report.

3. BACKGROUND

3.1 The revised management arrangements for the Pension Fund investment portfolio have been operational for approximately two years and this report sets out the performance for the quarter ended 31st December 2010 and since inception as provided by the Fund's investment advisors Hymans Robertson.

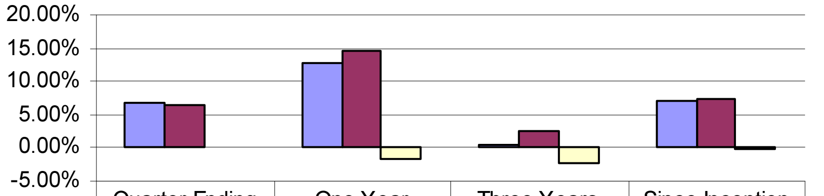
3.2 The full report and performance commentary will be provided at the meeting by the investment advisors.

4. PORTFOLIO SUMMARY

4.1 The fund had a market value of £756.5 million at the 31st December 2010 which represented a gain of £52.8 million (7.5%) over the September valuation of £703.7 million.

4.2 The fund achieved a return of 6.64% in the quarter which was 0.25% above the benchmark of 6.39%. The fund performance over the longer term is a set out below.

Table 1: Fund Performance



	Quarter Ending	One Year	Three Years	Since Inception
Fund	6.64%	12.90%	0.28%	7.02%
Benchmark	6.39%	14.62%	2.46%	7.24%
Relative	0.25%	-1.72%	-2.18%	-0.22%

4.3 The Council participates in a performance measurement survey conducted by the WM Company. This ranks the Council's investment against that of the other 97 Councils participating in the survey and expresses this as a position out of 100. In the latest figures available up to the quarter ending the 30th September 2010 the Council ranked 85th (June 2010: 71st) with the principal detractor from performance again being overseas equities where the Fund ranked 91st.

4.4 The fund currently employs nine specialist managers with mandates corresponding to the principal asset classes. The managers and the associated performance targets are as set out below.

Table 2: Portfolio Summary

Manager	Mandate	Target	Appointed	Dec 2010	Sep 2010
Alliance Bernstein	Global Equity	1.50%	1 Nov 2004	173.4	158.7
Fauchier	Hedge Fund	5% over 5 Years	28 Jun 2008	21.9	21.4
Harbourvest	Venture Capital	5% over 10 Years	29 Jun 2006	26.1	21.1
RCM	Global Equity	1.50%	18 Sep 2008	168.2	151.5
Schroders	Property	0.75%	12 Oct 2004	68.3	66.9
UBS (Equity)	UK Equity (Index)		27 Feb 2008	129.0	120.1
UBS (Bonds)	Fixed Interest		28 Feb 2008	125.8	127.2
INVESTEC	Commodities		25 Feb 2010	40.7	35.9
M & G	UK Financing Fund			3.1	0.9
				£756.5	£703.7

4.5 The performance of the individual managers relative to the appropriate benchmarks is as set out in table 3

Table 3: Managers Performance Relative to Target	Ended 31 Dec 2010	One Year	Since Inception
Alliance Bernstein	-0.2%	-3.7%	-2.3%
Fauchier	0.9%	-2.7%	-5.3%
Harbourvest	-6.6%	0.5%	-1.7%
RCM	1.5%	-3.2%	-4.3%
Schroders		-3.5%	-0.4%
UBS (Equity)	-0.1%	-0.3%	-0.5%
UBS (Bonds)	0.5%	2.0%	0.3%
INVESTEC	-3.3%		-5.7%
M & G	0.4%		1.0%

The table indicates the relatively short duration of the current structure and the significant improvement in performance of the RCM portfolio in the quarter.

4.6 The performance of individual managers will be analysed by the Councils Investment Advisor at the meeting.

5. CONCLUSION

5.1 There has been a marginal improvement in the Fund's performance in the quarter which is principally attributable to the significant outperformance by RCM. All managers with the exception of the bond mandate however continue to under-perform in the longer term.

6. FINANCIAL IMPLICATIONS

6.1 The comments of the Executive Director for Resources have been incorporated into the 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 Finance Officer who has statutory responsibility to ensure the proper administration of the Council's financial affairs including the administration of the Pension Fund.

Agenda Item 7

Pensions Investment Committee			
Report Title	**Investment of Pension Fund Cash Balances**		
Key Decision			**Item No. 7**
Ward			
Contributors	**Executive Director for Resources**		
Class	**Part One**		Date: **24 February 2011**

1. SUMMARY

1.1 This report informs Members of how it is proposed to comply with a Regulation issued by the Government which requires Council's to operate a separate bank account for Pension Fund cash balances from the 1st April 2011.

1.2 The report comprises the following sections:

2. Recommendations
3. Background
4. Options
5. Investment of Cash Balances
6. Financial Implications
7. Legal Implications

2. RECOMMENDATIONS

Committee is recommended to ;

2.1 Authorise the Executive Director for Resources to open a bank account for the Pension Fund with the Council's bankers the Cooperative Bank Plc.

2.2 Note the arrangements for the operation of the account.

2.3 Note the arrangements for the transfer of cash sums to the external fund managers on a basis to be determined by the Executive Director for Resources.

3. BACKGROUND

3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that by the 1st April 2011 the Council must establish a separate bank account for the Pension Fund. The Regulations specifically require that :

- The Pension Fund bank account must be entirely separate from those of the Council which specifically excludes including the Pension Fund bank account as part of the group.

- The Council cannot "borrow" cash from the Pension Fund for investment purposes.
- The Pension Fund has powers to borrow to fund its investment or revenue related activities provided that such borrowing is not anticipated to exceed 90 days.

3.2 It should be noted that the Regulation purely relates to cash and does not require the separation of the arrangements for recording the cash related transactions from those of the administering authority.

3.3 The legislation results from a number of factors including:

- The requirement for Private Sector occupational pension schemes to segregate assets (including cash) from those of the sponsoring company.
- The uncertainty of what proportion of the losses on investments with Icelandic Banks could be chargeable to Pension Funds and
- The differing practices amongst Councils on the payment of interest on Pension Fund cash balances and the perception that the fund's were not receiving adequate recompense for the use of their cash balances by Councils.

3.4 This Council currently aggregates the Pension Fund cash with its own cash for investment purposes and credits the Pension Fund with interest on its average cash holding for the year at a rate corresponding to the interest earned on the total investments. In 2009/10 the pension fund was credited with interest of £0.070 million on a average cash balance of £3.753 million which equated to an average rate of 1.81%.

3.5 This arrangement is no-longer permissible under the new Regulations which require separation of the two cash holdings.

4. OPTIONS

4.1 The alternative arrangements which could be adopted to comply with the Regulations may be summarized as :

- Establishing an entirely separate accounting and payment system to enable cash transactions to directly interface with the separate Pension Fund bank account.
- Continuing with current accounting and payments arrangements through the Lewisham systems but with periodic transfers of cash into the separate bank account and separate investment of this cash.

4.2 The separate accounting and payment arrangement whist providing total transparency does involve a number of issues and practicalities which will inevitably increase administrative and computer processing costs. In particular the numerous inter Council / Pension Fund transactions will involve extensive invoicing and cash transfer arrangements.

4.3 The Executive Director for Resources after considering the projected cash profile of the Pension Fund does not consider that total separation of the Pension Fund accounting and payments arrangements provides either a cost effective solution to the requirement to operate a separate bank account or additional security for the Pension Fund cash balances.

4.4 It is considered appropriate to continue with the current arrangement whereby all transactions are processed by the Lewisham systems but the Pension Fund cash balances as identified by the accounting system are transferred periodically from the Lewisham to the Pension Fund bank account.

4.5 To minimise the administration and the associated bank transfer costs it is proposed to transfer the net funds on the date the pensions are payable which is mid month. Financial modelling has indicated that one monthly transfer will not result in material sums of pension fund cash being temporarily held by the Council.

5. INVESTMENT OF CASH BALANCES

5.1 Cash balances are temporarily held by the Pension Fund until they are transferred to managers for long term investment in the different asset classes as determined by the investment strategy.

5.2 The average cash holdings will be relatively small and it is not cost effective to invest the cash sums on the market given the relatively small rate of accretion and short duration of cash holdings. Higher rated banks generally will not deal with balances of less than one million. Balances held with the Cooperative Bank will however be subject to relatively low rates of interest – currently approximately 0.28%. In these circumstances it is proposed to minimize deposits with the bank by remitting funds to managers.

5.3 The cash will eventually be paid over to the managers for longer term investment and it is proposed to minimize the balance on the bank account by initially remitting the funds for investment by the manager whose share of total funds is most underweight against the strategic benchmark. The additional funds allocated will be reflected in the periodic rebalancing between all managers.

6. FINANCIAL IMPLICATIONS

6.1 The comments of the Executive Director for Resources have been incorporated into the report.

7. LEGAL IMPLICATIONS

7.1 The legal implications are contained in the body of the Report at paragraph 3.