



# AGENDA

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## PENSIONS INVESTMENT COMMITTEE

**Date: THURSDAY, 11 JUNE 2015 at 7.00 pm**

**Mayor's Meeting Room  
Civic Suite  
Lewisham Town Hall  
London SE6 4RU**

**Enquiries to: Jessica Bolton  
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Email: Jessica.bolton@lewisham.gov.uk**

### **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

This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed

**Members are summoned to attend this meeting**

**Barry Quirk  
Chief Executive  
Lewisham Town Hall  
Catford  
London SE6 4RU  
Date: Wednesday 3 June 2015**



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.

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# Agenda Item 1

<b>PENSIONS INVESTMENT COMMITTEE</b>		
<b>Report Title</b>	<b>ELECTION OF CHAIR AND VICE CHAIR</b>	
<b>Key Decision</b>		<b>Item No. 1</b>
<b>Ward</b>		
<b>Contributors</b>	<b>CHIEF EXECUTIVE</b>	
<b>Class</b>	<b>Part 1</b>	<b>Date: 11 June 2015</b>

## **Recommendation**

It is recommended that a Chair and Vice Chair of the Committee be appointed for the Municipal Year 2015/16.

# Agenda Item 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision	No	Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 11 June 2015

## 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.

# Agenda Item 3

PENSIONS INVESTMENT COMMITTEE		
<b>Report Title</b>	MINUTES	
<b>Key Decision</b>	No	<b>Item No. 2</b>
<b>Ward</b>	All	
<b>Contributors</b>	CHIEF EXECUTIVE	
<b>Class</b>	Part 1	<b>Date:</b> 11 June 2015

## Recommendation

That the Minutes of the meeting of the Committee, held on 19 February 2015 be confirmed and signed.

## LONDON BOROUGH OF LEWISHAM

MINUTES of that part of the meeting of the PENSIONS INVESTMENT COMMITTEE, which was open to the press and public, held on THURSDAY, 19 FEBRUARY 2015 at 7pm.

Present

Councillor Ingleby (Chair) Councillor Mudoon (Vice-Chair) Councillors Hilton, Hooks and Reid.

Apologies were received from Councillors Bonavia and Maslin, and Tony Smith.

Independent Investment Adviser: Scott Donaldson, Hymans Robertson

Officers: Kath Nicholson – Monitoring Officer  
David Austin - Head of Corporate Resources  
Adeola Odeneye – Principal Accountant

Minute No.		Action
1.	<b>Minutes</b>	
	RESOLVED that the Minutes of the meeting of the Pensions Investment Committee, held on 13 November 2014, be confirmed and signed.	
2.	<b>Declaration of Interest</b>	
	Councillor Muldoon declared a personal interest as a member of the Local Government Pensions Scheme Shadow Advisory Board.	
3.	<b>Presentation by Schroders</b>	
3.1	Geoff Day Client Director, Graeme Rutter, Head of Schroder Real Estate Capital Partners, and Anthony Doherty Real Estate Fund Manager attended the meeting and made their presentation on behalf of Schroders.	
3.2	Mr Rutter gave an overview of the business and markets. He said that there had been economic recovery but there were still risks in Europe and there could be a rise in interest rates in the near future. Property was fairly priced and was still performing better than bonds. Mr Doherty said that there had been volatility in the rental markets last year but there had been strong performances and that was expected to be the same this year. However property was not liquid.	
3.3	Mr Rutter said that Schroders want to give their clients access to the best information. He said that there had been investment in local supermarkets, Tesco's local for example. Consumers were spending more money in these smaller shops; buying food when required rather than buying a weekly shop. Mr Day said that there	



had also been investment in car show rooms. Three years ago car show rooms were not popular amongst investors, but investing in these show rooms had produced a good return to the fund and managers were now considering selling 1/3<sup>rd</sup> of this investment.

- 3.4 Councillor Muldoon asked whether investment in Europe was unhedged. Managers confirmed that it was.
- 3.5 Councillor Muldoon asked whether the investment in the local supermarkets were directly held. Mr Rutter confirmed that the site was part of the fund of fund investment.
- 3.6 Councillor Hook asked whether the Greek financial crisis would have an effect on the fund. Mr Doherty said that there were many unknowns with regard to the crisis but he did not, therefore, have any concerns for the fund at this stage.
- 3.7 The Chair asked whether there were some early signs of investment opportunities in Europe. Mr Rutter confirmed that there were signs. He said that there were potential opportunities in the Nordic region and funds were of better quality. There was high unemployment in Spain but there were huge investment opportunities.
- 3.8 The Chair asked whether there were investment opportunities in secondary markets in Germany and Poland. Mr Rutter said that investment could be made in these markets but there would be risks.
- 3.9 The Chair thanked Mr Doherty, Mr Day and Mr Rutter for their informative presentation and they left the meeting.

RESOLVED that the report be noted

**Blackrock then presented to the Committee because managers from M and G had not arrived.**

## **5. Presentation by Blackrock**

- 5.1 Chris Head, Head of UK Local Authorities and Andrew Graver, Senior Investment Strategist attended the meeting and made their presentation on behalf of Blackrock. Mr Graver gave an overview of the performance of the portfolio.
- 5.2 Mr Graver said that smart beta had attracted attention recently because it is new, but the concept is far from new. What these strategies do is diversify the portfolio which keeps costs low. Smart beta sits somewhere between passive and active funds capturing investment themes.

- 5.3 The Chair asked about ethical investment. Mr Graver said that Blackrock have seen huge development in this area. They had invested in companies that do not have any involvement with tobacco companies or the production of weapons. Although a portfolio could be weighted towards environmental and social governance (E.S.G.) criteria, it would not always produce the best returns. Mr Head said that the local government pension scheme recently referred to a Q C opinion; it stated that, for affective investment, performance should come first and E.S.G second. Investment with impact was new to the market. Measuring impact of investment demonstrates the social impact that these investments are having on society. When Blackrock consider investing in a company, they look at their research and development budgets; how much investment was being made in to community issues; heart disease for example, and the company's track record in the social media.
- 5.4 The Chair asked about the living wage and whether there was an index for that. Councillor Muldoon agreed that this was an important issue. He said that he had recently met with an Executive member from Islington Council who had concerns about this issue. Mr Head said that managers can measure what people think about a company. If they do not believe that they are paying a fair wage, then this would be picked up by Blackrock. The Chair said that a report on the London Living Wage should be submitted to the next meeting of this Committee.
- 5.5 The Chair thanked Mr Head and Mr Graver for attending the meeting and they left.

RESOLVED that the report be noted and a report on the London Living Wage be submitted to the next meeting of this Committee

Cttee  
Clerk

#### 4. **Presentation by M & G**

- 4.1 Mr William Nichol and Mr Andrew Swan attended the meeting and made their presentation on behalf of M & G. They outlined the investments that had been made and what they considered the future holds.
- 4.2 Mr Swan said that financial banks were retreating from some markets. Small and Medium Enterprises were still finding it difficult to secure funding. M & G had been investing in the small end of the market because it was at the forefront of good market returns.
- 4.3 Mr Nichol said that M & G were in the process of launching an SRI fund which will look at renewable energy and ethical

investment.

- 4.4 Councillor Hook asked what would happen to money that was repaid early. Mr Head said that the money would return straight to the fund.
- 4.5 Councillor Hook asked why the portfolio was heavily weighted to the real estate. Mr Swan said that it was due to demand but they had stopped lending money at one point.
- 4.6 The Chair thanked Mr Nichol and Mr Swan for attending the meeting and they left.

RESOLVED that the report be noted

## 6. **Creation of a London Borough of Lewisham local Pension Board**

- 6.1 Ms Nicholson presented the report. She circulated a copy of the report that would be submitted for decision to the Council meeting on 26 February 2015. The Board would oversee the business of this Committee.
- 6.2 Ms Nicholson said that there had been a lot of guidance and regulations and this Council's constitution needed to reflect that a Pension Board would be established as set out in paragraph 6 of the report.
- 6.3 Ms Nicholson said that the Appendix to the report broadly incorporated the guidance and template for these regulations with the following amendments:-
- The term to be served on the Board shall be the same as the four year Council administration beginning and ending at the annual general meeting of the Council.
  - Membership of the scheme shall include one member nominated by the trade union with the largest membership of Lewisham scheme members in its membership. One further member representative should be appointed by a transparent process open to all fund members
  - process open to all Fund members and approved by the Council
  - Remuneration should only be paid to members of the Board who are not councillors and .
  - The terms of reference as amended should be referred to full Council as an appendix to the report.
- 6.4 Ms Nicholson referred to the core functions set out in the terms of reference. She said that, rather than use a long list of functions,

the board can choose what they would like to focus on. The functions were, therefore, flexible.

- 6.5 The Chair referred to Core functions 55 a) and h) and 56 b). He said that on a practical level, this would require fuller minutes of this Committee. Ms Nicholson said that the templates were for guidance. The Pension Board will consider the intensity of what they were considering.
- 6.6 The Chair noted that the Chair of the Pensions Board did not have the casting vote. Ms Nicholson said that this was unusual but there could be deadlock. She anticipated that there would be occasions when members agreed to disagree.
- 6.7 Councillor Hook said that he did not know how the Board would interact with this Committee. Mr Donaldson said that advisers would present reports and the board would scrutinise them.
- 6.8 Councillor Muldoon said that following regulations, the timetable for setting up a Pensions Board had been tight. He wished to place on record his thanks to the Chair and Ms Nicholson for driving this proposal though before 1 April 2015. He asked whether the Pensions Board would receive the same advice as this Committee. Ms Nicholson said that regulations state that officers should assist in compliance. It was about having an overview to ensure effective investment of the scheme.
- 6.9 The Chair thanked finance officers for their role in bringing the report to this Committee.

RESOLVED that this Committee supports the proposals for a Pension Board and noted that the report would be submitted to the next meeting of the Council meeting for approval.

## **7. Additional funding to the London LGPS Collective Investment Vehicle**

- 7.1 Mr Austin presented the report.
- 7.2 Councillor Muldoon asked whether this Council would be asked for more financial contributions in the future. Mr Austin said that requests for further contributions was a possibility until the investment vehicle is up and running.
- 7.3 Councillor Hilton said that financial advice is expensive but for potential savings, it was worth the risk.
- 7.4 The Chair said that a report on the LGPS Collective Investment Vehicle, should be reported to every meeting of this Committee.

**Cttee  
Clerk**

RESOLVED that further payments of £50,000 be agreed. This will be split into:

- A contribution of £25,000 for 2014-15
- A contribution of £25,000 for 2015-16

## 8. Training Schedule as a 5 February 2015

8.1 Ms Odeneye presented the report. She said that in the Appendix to the report, there was a training schedule with a list of conferences and training for the remainder of the year up to November 2015. She encouraged members to consider what training they would benefit from because Audit had identified member training as being on the risk indicator. She asked members to let her know if there was any training they required that was not on the list. The Chair asked members of the Committee to advise Ms Dale in Governance support, about the training that they had already received.

8.2 Councillor Muldoon said that he had a free place for the training offered on 18 March 2015. He said if members wanted to attend to let him know. Ms Odeneye said that Gov Today had also offered free training and would be circulated to members.

Cttee  
Clerk

8.3 Councillor Hooks asked whether fund managers would provide training in Lewisham. Councillor Muldoon said that in the past, members had received training in the London offices of Fund Managers. He said that this had been useful, because staff could be called in to training sessions at short notice if necessary. The Chair asked officers to arrange possible dates for a half day visit to fund managers offices.

Ms  
Odeneye

RESOLVED that the report be noted and training be arranged as outlined above.

## 9. Investment Performance for the Quarter End 31 December 2014

9.1 Mr Donaldson presented the report. He said that the value of the fund's assets had increased to nearly £1m at the end of 2014. Global equities closed at an all-time high.

9.2 Mr Donaldson said that since he had written the report, there had been a change at Investec. Bradley George had a new position within the company and would not be managing Lewisham's portfolio. He said that he would submit a report to the next meeting of this Committee with some recommendations for possible changes.

- 9.3 The Chair asked whether Investec's performance was on watch. Mr Donaldson said that he believed that their performance should be on green. He had every confidence in their performance. However, the research team took a different view. He considered that the position of risk to the fund was as it should be.

RESOLVED that the report be noted.

## 10 Exclusion of the 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:

### 11. Harbourvest Reinvestment Report

The following is a summary of the items considered in the closed part of the meeting.

## 11 Harbourvest Reinvestment Report

RESOLVED That

(i) the Council reinvest fully in the HarbourVest Fund on condition that our Investment Advisors confirm this approach in a separate report.

(ii) Hymans Robertson our investment advisors, be paid to conduct a separate report.

(iii) the combination of funds to be purchased will be decided directly between Officers, our Investment advisors and HarbourVest; and

(iv) if necessary, the Pension Fund portfolio be balanced in accordance with our strategic allocation in order to fund the reinvestment with HarbourVest.

Minute No.

Action

The meeting ended at 9.00 p.m.

Chair

# Agenda Item 4

Pension Investment Committee			
REPORT TITLE	Lewisham Pension Scheme – 2015/16 Update		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	11 June 2015

## 1. PURPOSE

- 1.1. This paper provides members with a summary of the current position of the Lewisham Pension Fund and a look ahead for the financial year 2015/16.

## 2. RECOMMENDATIONS

- 2.1. Members are asked to note this report.

## 3. BACKGROUND

- 3.1. The Lewisham Local Government Pension Scheme (LGPS) has just over £1,000m of investments serving approximately 23,000 members, of whom around 7,000 are active contributing members. The remaining being deferred or retired members. The fund is maturing.
- 3.2. In 2012 following a period of poor performance the fund switched from being largely actively managed to a majority passive strategy. The passive strategy and the appointed mandates have not been changed. This is consistent with the longer term planning required (typically 20 years) for pension funds.
- 3.3. At the last valuation the fund was 71.4% funded. This is a relatively weak position and is the underlying reason why the passive investment strategy is so heavily weighted to equities, a more risky asset class. The position also underlines the duty for pension fund investments to be based on return.



#### **4. CURRENT CONSIDERATIONS**

- 4.1. The national debate about whether 89 LGPS is appropriate continues. London is setting up the Collective Investment Vehicle (CIV) and Lewisham is a member. Some LGPS are sub-contracting their administration to other larger funds to secure cost effective expertise and advice and contain fees.
- 4.2. While the LGPS remains a defined benefit scheme, in 2014 it switched from being a final salary scheme to a career average scheme. The intention of this change was to better link contributions to benefits and make the LGPS more sustainable. Nationally, auto-enrolment for work based pension schemes was also introduced.
- 4.3. With the introduction of new regulations in 2015, the Council is in the process of establishing the new Pension Board. This will review compliance with the regulations and good practice of both the investment and administration business of managing the fund, reporting to Council.
- 4.4. In 2015 the Pension Investment Committee (PIC) agreed to re-invest in the Harbourvest 'fund of fund' alternative portfolio as previous funds matured. The PIC were also briefed by M&G that the corporate bond mandate is now maturing, returning cash and, given market conditions, there is no equivalent replacement.
- 4.5. Fund managers presenting to the PIC have independently made reference to the growth in more social, ethical and infrastructure products. It is not clear whether this is in response to potential returns or in response to continuing interest in these issues from LGPS.
- 4.6. Recently, given the weighting to equities in the fund, the PIC has been investigating 'smart beta' options for some of the equities portfolio. These rules based tracking funds aim to ensure equity investments are better aligned to value and to smooth some of the swings equity markets are prone to.
- 4.7. The next valuation of the fund will be undertaken at 31 March 2016 with any changes to contribution rates taking effect from April 2017. The valuation will assess the impact of auto-enrolment, move to career average, and pace of maturing of the fund (impact of austerity cuts).
- 4.8. Unless the fund's advisers believe that the direction of travel in global markets (arising from issues such as: low inflation and growth; over heated equity markets; liquidity constraints; impact of end of quantitative easing; and political uncertainties) requires action sooner, the timing of the next valuation will also provide an opportunity to revisit the fund's investment strategy for the next three years.

## **5. LEGAL IMPLICATIONS**

- 5.1. There are no legal implications arising from this report.

## **6. FINANCIAL IMPLICATIONS**

- 6.1. There are no financial implications arising from this report.

## **7. CRIME AND DISORDER IMPLICATIONS**

- 7.1. There are no crime and disorder implications directly arising from this report.

## **8. EQUALITIES IMPLICATIONS**

- 8.1. The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new public sector Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.
- 8.2. The Council's Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

## **9. ENVIRONMENTAL IMPLICATIONS**

- 9.1. There are no environmental implications directly arising from this report.

## **10. BACKGROUND DOCUMENTS**

- 10.1. None

For further information on this report please contact:

David Austin, Head of Corporate Resources on 020 8314 9114 or at [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk)

or

Adeola Odeneye, Treasury and Pension Manager on 020 8314 6147 or at [adeola.odeneye@lewisham.gov.uk](mailto:adeola.odeneye@lewisham.gov.uk)

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Pension Fund Investment Committee Business Plan 2015/16		
<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>	11 June 2015

## 1. PURPOSE OF THE REPORT

- 1.1 This report sets out the Pension Fund Management Business plan for 2015-16. The Plan includes the key objectives for the Fund, major milestones and issues; training; and the risk register for the Fund.

## 2. RECOMMENDATION

- 2.1 Members are recommended:

- (1) To approve the Business Plan 2015/16 as set out in Appendix 1
- (2) To agree to complete the skills and knowledge self assessment form (Appendix A) by 2<sup>nd</sup> September 2015

## 3. BACKGROUND

- 3.1 In the guidance document “Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012”, it is recommended that organisations have in place a business plan. The guidance recommends the plan set out formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

## 4. SUMMARY

- 4.1 The business plan comprises of the following:

- 1. Introduction

2. Key Documents To Be Considered By The Committee
3. Major Milestones
4. Knowledge, Development And Training
5. Monitoring the Performance of Fund Managers
6. Administrative Targets For The Committee Members
7. Pension Fund Committee Meetings Timetable
8. Appendices:
  - A Skills And Knowledge Audit
  - B Training And Conferences During 2015-16
  - C PIC Detailed Workplan
  - D Risk Register

## **5. FINANCIAL IMPLICATIONS**

- 5.1 The financial implications are contained within the detail of the appended document.

## **6. LEGAL IMPLICATIONS**

- 6.1 There are no legal implications directly arising from this report.

## **7. ENVIRONMENTAL IMPLICATIONS**

- 7.1 There are no environmental implications directly arising from this report.

## **8. HUMAN RESOURCES IMPLICATIONS**

- 8.1 There are no human resources implications directly arising from this report.

## **9. CRIME AND DISORDER IMPLICATIONS**

- 9.1 There are no crime and disorder implications directly arising from this report.

## **10. EQUALITIES IMPLICATIONS**

- 10.1 There are no equalities implications directly arising from this report.

## **11. CONCLUSIONS**

- 11.1 This report must be updated on an annual basis

## **APPENDICES**

Appendix One – Business Plan 2015-16

## **FURTHER INFORMATION**

For any further information on this report, please contact David Austin 020 8314 9114

**LONDON BOROUGH OF LEWISHAM  
PENSION FUND**

**BUSINESS PLAN 2015-16**

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- 2. KEY DOCUMENTS TO BE CONSIDERED BY THE COMMITTEE**
- 3. MAJOR MILESTONES**
- 4. KNOWLEDGE, DEVELOPMENT AND TRAINING**
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- 6. ADMINISTRATIVE TARGETS FOR THE COMMITTEE MEMBERS**
- 7. PENSION FUND COMMITTEE MEETINGS TIMETABLE**
- 8. APPENDICES:**
  - A SKILLS AND KNOWLEDGE AUDIT**
  - B TRAINING AND CONFERENCES DURING 2015-16**
  - C PIC DETAILED WORKPLAN**
  - D RISK REGISTER**

## **1. INTRODUCTION**

1.1 Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, the London Borough of Lewisham maintains a Pension Fund for approximately 14,000 individuals employed by 28 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

1.2 This Business Plan (BP) provides an overview of the Fund's key objectives for 2015/16.

The key high level objectives of the fund are summarised as:

- Optimise Fund returns consistent with a prudent level of risk
- Ensure that there are sufficient resources available to meet the investment Fund's liabilities, and
- Ensure the suitability of assets in relation to the needs of the Fund.

1.3 A bespoke training and development program for this administration will be added to the BP after agreement by Members at the September Committee.

1.4 The governance of the Fund is the responsibility of the Executive Director of Resources and Regeneration for the London Borough of Lewisham and the London Borough of Lewisham Pension Fund Investment Committee. The day to day management of the Fund is delegated to Officers with specific responsibility delegated to the Head of Corporate Resources. He is supported in this role by the Principal Accountant for Pensions and Treasury Management, and the Group Manager for Payroll and Pensions.

1.5 The Pensions Investment Committee (PIC) aims to ensure the maximising of investment returns over the long term within an acceptable level of risk. Performance is monitored by asset performance being compared with their strategic benchmarks. This includes reviewing the Fund Managers' quarterly performance reports and discussing their strategy and performance with the Fund Managers.

## **2. CODE OF PRACTICE**

2.1 The London Borough of Lewisham adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

2.2 Lewisham recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.

2.3 Accordingly Lewisham will ensure that it has adequate resources, formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

2.4 These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

2.5 Lewisham will report annually on how these policies have been put into practice throughout the financial year.

2.6 Lewisham has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Head of Corporate Resources, who will act in accordance with the organisation's policy statement, and, where he is a CIPFA member, with CIPFA Standards of Professional Practice.

### **3. KEY DOCUMENTS TO BE CONSIDERED BY THE PENSION INVESTMENT COMMITTEE**

3.1 There are a number of key policy and strategy documents which the Local Government Pension Scheme (LGPS) Regulations require to be kept under regular review. These are listed below:

#### *3.2 Annual Report*

This report sets out the Pension Fund activities for the previous financial year. The Council is required to publish the report by December of each year to accompany an audited financial statement. Within the Annual Report are the following documents: Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement, Communications Policy and Pension Fund accounts.

#### *3.3 Funding Strategy Statement*

This sets down the strategy for prudently meeting the Fund's future pension liabilities over the longer term, including the maintenance, as far as possible, of stable levels of employer contributions. It also identifies the key risks and controls facing the Fund and includes details of employer contribution rates following the Fund's triennial valuation.

#### *3.4 Statement of Investment Principles*

This document identifies the investment responsibilities of the various parties involved. For example, Pension Committee, Officers, Investment Managers, Custodian, and Investment Advisors. It also details the Fund's investment policies and asset allocation approach as well as its compliance with the six Myners' investment principles. These six principles cover: Effective Decision Making; Clear Objectives; Risk and Liabilities; Performance Assessment; Responsible Ownership; and Transparency and Reporting.

#### *3.5 Communications Policy*

This details how the Fund provides information and publicity about the Pension scheme to its existing members and their employers and methods of promoting the Pension scheme to prospective members and their employers. It also identifies the format, frequency and method of distributing such information or publicity.

#### *3.6 Governance Compliance Statement*

This is a written statement setting out the administering authority's compliance with good practice governance principles. These principles are grouped within eight categories and are listed within the statement. The Fund's compliance against each of these principles is also detailed, including evidence of compliance and, if appropriate, reasons if there is not full compliance.

### **4. MAJOR MILESTONES FOR THE PENSION FUND IN 2014-15**

4.1 The PIC will review and revise the BP annually at its June meeting and will evaluate performance against the action plan. The Committee will be provided with a BP update at its quarterly meetings.



<b>Milestone</b>	<b>Date</b>
Review and Evaluation of the Business Plan	Agreed by Committee 11 <sup>th</sup> June 2014
Draft Pension Fund Accounts presented	11 <sup>th</sup> June 2014
First meeting of Local Pension Board	Deadline 30 <sup>th</sup> June 2015
Approval of the audited Pension Fund annual accounts and annual report	5 <sup>th</sup> November 2014
Knowledge and Skills audit completed	2 <sup>nd</sup> September 2014
Review performance of fund managers	Considered by Committee at each meetings
Training sessions attended by members	As per training plan
Policy documents reviewed	Agreed as per schedule in Appendix C

## 5. KNOWLEDGE, DEVELOPMENT AND TRAINING

5.1 Following completion and analysis of the Knowledge and Skills returns (Appendix A) by Committee Members a bespoke training programme will be developed for the Committee to agree at its September meeting.

5.2 A. General training and annual events will be provided and are outlined below:

<b>Induction</b>	On joining the Pension Fund Committee all new members will receive a briefing on the responsibilities of the Committee and an introduction to the major policy and other documents setting out the Fund's management arrangements and investment strategy.
<b>Pension Investment Committee papers</b>	This consists of key policy documents such as the statement of investment principles, the funding strategy statement, the communication strategy, risk management and also refers to the main regulations affecting the administration of the fund.
<b>Annual meetings with Fund Managers</b>	Each fund manager is scheduled to attend PIC. These meetings are specific to each fund manager and have a bespoke agenda to ensure additional information on the asset class managed is provided to Committee Members as well as covering areas of performance and governance.
<b>A range of seminars and conferences</b>	This will be available to Members, including specific training for new Committee Members provided by the Local Government Employers. An example of the sort of seminars/ conferences that are available during the year is attached as Appendix B.
<b>Quarterly economic updates</b>	This is arranged for Committee Members throughout the year through the Fund's Investment advisor Hymans Robertson.

5.3 B. Core Technical Requirements:

There are six areas of knowledge and skills relating to the LGPS, which CIPFA has identified as being the core technical requirements for those involved in decision-making. They are:

1. legislative and governance context;
2. accounting and auditing standards;
3. procurement of financial services and relationship management;
4. investment performance and risk management;
5. financial markets and knowledge of investment products; and
6. actuarial methods, standards and practices.

The major matters covered under each of the six areas are set out in Appendix A.

5.4 C. Training programme

Training is provided in separate meetings, and can take place before each Investment Committee meeting, with attendance restricted to Committee members, other Council members and Trades Union representatives. A log is maintained of members' attendance at training meetings. The proposed 2015/16 programme will be based on an assessment of training needs, and will be identified from the self assessment form in Appendix A.

The London Borough of Lewisham Pension Fund has a suggested three year rolling training and development plan that is to be approved by the PIC. This ensures that Trustees and

Officers responsible for the Fund continue to refresh and develop their knowledge and skills to allow them to discharge their responsibilities and meet the requirements of The Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills framework.

	<b>General</b>	<b>Intermediary</b>	<b>Advanced</b>
<b>Year 1</b>	Introductory courses: <ul style="list-style-type: none"> <li>• A review of Myners' Principles</li> <li>• An in-depth look at equity investment</li> <li>• An in-depth look at bond investment</li> <li>• LGPS</li> <li>• Legal Matters</li> </ul>	<ul style="list-style-type: none"> <li>• Good Governance</li> <li>• Legislation Pensions &amp; LGPS</li> <li>• Pension Regulators &amp; Advisors</li> </ul>	<ul style="list-style-type: none"> <li>• General pensions framework</li> </ul>
<b>Year 2</b>	<ul style="list-style-type: none"> <li>• Refresher Courses</li> <li>• Performance of the Fund committee</li> <li>• Performance of support services</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement of financial Services</li> <li>• Accounts and Audit regulations</li> <li>• Role of internal and external audit</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of investment performance</li> <li>• Performance of advisors</li> <li>• Financial markets</li> <li>• Investment strategy</li> </ul>
<b>Year 3</b>	<ul style="list-style-type: none"> <li>• Refresher Courses</li> <li>• Ill-health and early retirement</li> <li>• Admitted bodies</li> </ul>	<ul style="list-style-type: none"> <li>• Outsourcing and bulk transfers</li> <li>• Regulatory requirements regarding investment products</li> </ul>	<ul style="list-style-type: none"> <li>• Valuations, funding strategy and inter-valuation monitoring</li> <li>• Supplier risk management</li> </ul>

5.5 In addition to these formal sessions, those charged with the governance of the Fund also seeks to keep up to date with the latest developments LGPS and the wider Pensions industry through briefings and attendance at appropriate seminars and conferences. The Fund will only attend sessions that directly impact upon the London Borough of Lewisham Pension Fund in that they:

- Will provide information on the latest developments within the LGPS and particularly LGPS 2015;
- Provide the Fund with opportunities to develop knowledge of key developments and best practice within other LGPS Funds;
- Provide the Fund with an opportunity to research new asset classes within the investment universe; or
- Are specific client conferences run by the Funds existing Fund managers or external advisors.

## **6. MONITORING PERFORMANCE FOR THE FUND MANAGERS**

6.1 The monitoring of the returns on the Fund Investments are undertaken by Northern Trust who provide monthly, quarterly, annual, and three-yearly investment returns. A report on the latest quarterly investment performance of the Fund Managers against their agreed benchmarks is presented by our adviser Hymans Robertson at each PIC meeting.

6.2 The Committee, investment advisors and officers have the opportunity to discuss performance with the Fund Managers and any other related investment issues that may arise. In times where performance is poor the Committee will request that the Fund Manager sets out their strategy for improving performance and meeting agreed targets.

## 7. ADMINISTRATIVE TARGETS FOR THE COMMITTEE MEMBERS

### 7.1 Administrative targets:

- Members to attend at least 75% of Pension Committee meetings each year.
- Draft committee minutes to be issued within seven weeks of a meeting
- Committee papers to be sent out at least five working days before a meeting.
- To regularly review and agree changes to strategy/policy documents. All strategy/policy documents will be considered by Committee at least every two years, even if no changes are recommended.

## 8. PENSION FUND COMMITTEE MEETINGS TIMETABLE

### 8.1 Work programme

The committee's work programme for the coming year will be as follows:

<u>At each meeting</u>	To review the current economic background and recent investment market returns.
	To review the Fund's asset allocation, investment activity since the last meeting and the current investment portfolio.
	To approve investment strategy in the light of recommendations from the Executive Director of Resources and the Fund's independent advisers
	To review investment performance
	To receive the minutes of the Local Authorities Pension Fund Forum (LAPFF)
	To consider the Executive Director of Resource's report in respect of Corporate Governance issues
	To consider the Executive Director of Resource's report in respect of Risk
<u>Annually</u>	To approve a Business Plan for the forthcoming year
	To approve the Fund's Treasury Management Strategy for the forthcoming year
	To approve the Pension Fund's Annual Report.
	To review the Pension Fund's Statement of Investment Principles (SIP)
	To consider the Committee's training requirements
<u>As required</u>	To review any changes to investment regulations
	To consider matters relating to investments
	To review the appointment of advisers/managers

A detailed schedule can be found in Appendix C.

**SKILLS AND KNOWLEDGE AUDIT:**

Every public sector organisation should secure adequate resources and appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

Are you financially Qualified?	Yes/No
If yes, please state the qualification	
Have you served on a Pensions Committee before?	Yes/No
If yes, please provide dates	From: To:

<b>M</b>	Minimal level of understanding
<b>I</b>	Intermediate level of understanding
<b>A</b>	Advanced level of understanding

Core technical areas	Areas of knowledge	Level of Understanding: M,I,A
<b>Legislative and governance framework</b>	General pensions framework	
	Scheme-specific legislation for LGPS	
	Pensions regulators and advisors	
	Constitutional framework for Fund committees within administering authorities	
	Pension scheme governance	
<b>Accounting and auditing standards</b>	Accounts and Audit regulations	
	Role of internal and external audit	
<b>Procurement of financial services and relationship management</b>	Procurement requirements of UK and EU legislation	
	Supplier risk management	
<b>Investment performance and risk management</b>	Monitoring of investment performance	
	Performance of advisors	
	Performance of the Fund committee	
	Performance of support services	
<b>Financial markets and investment products</b>	Investment strategy	
	Financial markets	
	Regulatory requirements regarding investment products	
<b>Actuarial methods, standards and practices</b>	Valuations, funding strategy and inter-valuation monitoring	
	Ill-health and early retirement	
	Admitted bodies	
	Outsourcing and bulk transfers	

Please list any other relevant topics that are of interest to you	
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## TRAINING AND CONFERENCES DURING 2014-15

Date	Conference /Event	Run By	Delegates/Cost
03-06-15	Annual Global Real Estate Conference (66 Portland Place, W1B 1AD)	Schroder Real Estate	Free Day Event
09-06-15	Pension Stability in DB Schemes (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members AM Event
11-06-15	Trustee Development Investment Workshop (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members Day Event
17-06-15	Introduction to Trusteeship – Part 1: The Theory (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members Day Event
18-06-15	Trustee training for new and existing Defined Benefit Pension trustees (Charing Cross Hotel, London)	Russell Investment	Free Day Event
07-07-15	SPS Investment Strategies for Mature & De-Risking Pension Funds (Le Meridien Piccadilly, London)	SPS Conferences	Free 2 spaces Day Event
16-07-15	Breakfast Briefing: “Investing in a ‘Conservative’ World	Punter Southhall	Free AM Event
03-09-15	Understanding Investment (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members AM Event
03-09-15	Adding Value in Bond for Pension Funds (Le Meridien Piccadilly, London)	SPS Conferences	Free 2 spaces Day Event
10-09-15	Alternative Investment Strategies for Pension Funds (Le Meridien Piccadilly, London)	SPS Conferences	Free 2 spaces Day Event
14-09-15	Pension Basic (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members AM Event
15-09-15	Hot Topic Seminar: Defined Benefit (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members Day Event
17-09-15	Introduction to Trusteeship- Part 1: The Theory (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members Day Event
24-09-15	Getting ready for your next Pension Valuation	Punter Southhall	Free AM Event
24-09-15	Introduction to Trusteeship – Part 2 : The Practice (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members Day Event
08-10-15	Property & Real Asset Investment Strategies for Pension Funds (Le Meridien Piccadilly, London)	SPS Conferences	Free 2 spaces Day Event
21-10-15	Introduction to Trusteeship- Part 1: The Theory (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members Day Event
03-11-15	Local Authority Forum (138 Cheapside, London, EC2V 6AE)	NAPF	Free for members Day Event

**APPENDIX B**

<b>05-11-15</b>	Current Investment Issues for Pension Funds (Le Meridien Piccadilly, London)	SPS Conferences	Free 2 spaces Day Event
<b>19-11-15</b>	Local Authority Pension Fund Investment Strategies (Le Meridien Piccadilly, London)	SPS Conferences	Free 2 spaces Day Event
<b>26-11-15</b>	Getting ready for your next Pension Valuation	Punter Southall	Free AM Event
<b>03-12-15</b>	Trustee Training – Trustee Knowledge and Understanding (Intensive) (Central London)	Punter Southall	£495 plus VAT Day Event
<b>08-12-15</b>	Trustee Conference (London)	NAPF	Free for members Day Event

## Pension Investment Committee schedule 15/16

### 11 June 2015: (Agenda dispatch 2 June)

- PIC Business plan
- Terms of Reference
- Draft Pension Accounts
- Overview of Lewisham LGPS
- Hymans adhoc paper

### 2 September 2015: (Agenda dispatch 25 August)

- Investment Manager presentation: Investec, Schroders
- Quarterly monitoring
- Smart Beta analysis
- VM presentation
- Pension updates

### 17 November 2015: (Agenda dispatch 9 November)

- Investment Manager presentation: BlackRock, UBS
- PIC Annual Report 2014-15
- Investment Manager Visits
- Quarterly monitoring
- Pension updates

### 9 February 2016: (Agenda dispatch 1 February)

- Investment Manager Visits: HarbourVest, M&G
- Quarterly monitoring
- Pension updates
- 

### Visits to Investment Managers 2015-16:

- November/ December 2015 – M&G
- January/ February 2016 - BlackRock



Pension Fund Investments Risk Register 2015

Risk Owner Key	Likelihood Key	Impact Key	Risk movement since last Committee report
Principal Accountant Pensions & Treasury – PA	1 – Rare	1 – Insignificant	▲ increased risk
Executive Director of Resources – MT	2 – Unlikely	2 – Minor	▼ decreased risk
Head of Corporate Resources - HCR	3 – Possible	3 – Moderate	► no change
Pensions Investment Committee – PIC	4 – Likely	4 – Major	
	5 – Almost Certain	5 – Extreme	

Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner
<b>Governance Risks</b>											
G00001	New Members lack of knowledge /understanding of their roles and responsibilities Members lack sufficient investment knowledge/ expertise to make decisions	Change of membership Lack of or non-attendance at training sessions	Inappropriate or bad decision making in relation to investments	3	3	9	CIPFA have issued a Code of Practice on the Knowledge and Skills Framework for the Pension Fund and the Section 151 Officer has responsibility for the implementation of its requirements. The Head of Corporate Resources will ensure that the Code is implemented and that a policy statement is included in the Annual Report & Accounts  Training programme for Committee Members to ensure that they have the requisite knowledge and skills to be in a position to question and understand the agenda and recommendations put before them to make high level strategic decisions.	Members given induction training when they join the committee as well as subsequent opportunities to attend courses and seminars  Review membership of Professional bodies		▲	PIC/ HCR

APPENDIX D

Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review			
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner	
G02	Inappropriate investment strategy is adopted		Fund returns are not sufficient to met obligations to members forcing emergency employers contributions and potentially more risk.									2
G03	Poor/lack of advice from advisors to Committee members	Appointment of inadequate advisors	PIC members not up to date with investment issues  Inappropriate decisions are taken leading to increased employers costs	2	4	8	Robust recruitment procedures in place  Professional qualified consultants. Use of consultants with experience across a number of LGPS funds.  Officers and Members review and challenge advice received.	Make use of the training material available to trustees to develop knowledge and understanding.  Trustee training programme is maintained.			▶	HCR
G04	Lack of effective performance management	No regular review of performance	Poor performance goes undetected resulting in fund governance failings.	1	4	4	A performance management framework involving quarterly performance reports to PIC is in place. Poor performance is highlighted and addressed directly by PIC on the advice of the Pension Fund advisors.	Existing arrangements are sufficient and will continue. The move in 2012/13 to a majority passive fund significantly simplifies performance monitoring.			▶	PIC/ HCR

Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner
<b>Operational Risks</b>											
001	Failure to comply with pension fund accounting requirements	Inadequate staffing resources /knowledge	accounts qualified by auditors	1	5	5	Officers receive adequate training and attend conferences and LPFF in order to receive up to date information.  Pension accounts are reviewed on a quarterly basis.  Audit recommendations are implemented			▶	PA
002	Poor/lack of advice from officers to Committee members	Inadequate staffing resources /knowledge	Decisions are sub-optimal in terms of their governance and performance of the fund.	2	4	8	Attendance at conferences. Training undertaken by officers, and linked to officer performance appraisals.			▶	PA
003	Failure to adhere to relevant statutory regulations including updates from LGPS and CLG	Lack of technical expertise/staff resources to research regulations, IT systems do not adhere to latest legislation	Investment in disallowed, investments vehicles or failure to comply with governance standards	2	5	10	Monitor statutory requirements via CLG website and attend LPFF meetings.  Monitor proposed changes and respond to consultations to influence outcome. Amend systems, processes to ensure compliance, use of specialist advisors to prepare for anticipated changes  Ensure processes and policies in place to meet regulatory compliance  Ensure adequate training and specialist knowledge and skills for both staff and Members charged with governance			▲	PA

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Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner
004	Custody arrangements may not be sufficient to safeguard Pension Fund assets	Custody agents fail to comply with contract	Investment funds are lost.	1	5	5	<p>Complete and authorised agreements are in place with existing custodian Northern Trust</p> <p>Contact with custodian is made on a regular basis to keep informed of any issues arising</p> <p>Officers meet custodian once a year to discuss the arrangements and any issues arising</p>			▶	HCR
<b>Financial Risks</b>											
005	Fund assets are not sufficient to meet its obligations and liabilities in the medium term/long term	<p>Assets and liabilities impacted by investment performance</p> <p>Assets could fail to increase at the same rate as liabilities</p>	The Fund is not able to meet its obligations to members in full.	3	4	12	<p>Controls in place to monitor assets and liabilities of the pension fund and to review asset allocation on a regular basis to ensure it remains appropriate.</p> <p>Use of external advisers– actuarial and investment, to advise the Fund on how to manage the asset/liability mismatch</p> <p>Set strategic goals to achieve full funding and set targets to make changes to the assets when appropriate to do so</p> <p>Triennial Valuation assesses the funding position, intervaluation monitoring ensures that movements in the Funding position can be assessed and strategies to manage any deterioration are put in place.</p>	Additional employer contributions will help make up valuation shortfall.		▶	PIC/ HCR

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APPENDIX D

Identification of Risk				Scoring			Risk Mitigation/ Controls / Procedures		Review		
Ref	Risk	Cause	Effect	Likelihood	Impact	Risk Rating	Current Controls	Additional Requirements	Previous Score	Direction of Travel	Risk Owner
F02	Insufficient cashflow to meet the funds day to day cash requirements	The monthly contributions are less than benefits paid	Increased transaction costs, failure to meet obligations to members.	1	3	3	Proper cash flow forecast maintained and reviewed periodically.  Cash balance held by custodian reviewed periodically to ensure sufficiency.	Report to be presented to members for authorisation to withdraw income or liquidate assets to generate cash		▶	HCR
F03	Pension fund Underlying financial information is incorrect	Information contained in Report & Accounts is inaccurate due to poor financial controls and recording of financial information	possible qualification of accounts and inaccurate valuations with financial and reputational impact	1	4	4	Monthly, quarterly & annual reconciliations of all accounting data			▶	PA
F04	Poor performance of investments	Poor investment performance either as a result of the types of assets invested in or performance of individual fund managers.	Assets fail to achieve strategic benchmark and fund fails to grow	2	4	8	Regular monitoring of asset allocation, monitoring of investment performance of fund managers to ensure both are on target to achieve the targeted returns.  Use of external advisers to assist in making investment decisions and ensuring that decision takers understand the investments of the fund	Rebuilding Pensions reserve to buffer against future valuations variations		▶	HCR

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Likelihood and impact:

		IMPACT				
		5 (Extreme)	4 (Major)	3 (Moderate)	2 (Minor)	1 (Insignificant)
LIKELIHOOD	5 (Almost Certain)	25	20	15	10	5
	4 (Likely)	20	16	12	8	4
	3 (Possible)	15	12	9	6	3
	2 (Unlikely)	10	8	6	4	2
	1 (Rare)	5	4	3	2	1

RISK CATEGORY	HOW THE RISK SHOULD BE MANAGED	No. of risks
Red (16-25)	Immediate action required, Senior Management involved	0
Amber/ Red (10-15)	Senior Management attention needed and Management responsibility specified	3
Amber/ Green (5-9)	Manage by specific monitoring or response procedures	6
Green (1-4)	Manage by routine procedures, unlikely to need specific or significant application of resources	3

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Investment Performance for the quarter end 31 March 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>	11 June 2015

## 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 ended 31 March 2015.

1.2 The report comprises the following sections:

1. Summary
2. Recommendation
3. Background
4. Portfolio Summary
5. Conclusions
6. Financial Implications
7. Legal Implications
8. Crime and disorder Implications
9. Equalities Implications
10. Environmental Implications

Appendix:           (i) Hymans Robertson quarterly report  
                          (ii) Hymans The Investec Mandate- analysis paper

## 2. RECOMMENDATION

2.1 The Committee is recommended to note the contents of the report, and detailed analysis provided by Hymans Robertson as the fund advisory presented as an Appendix to this cover report.

## 3. BACKGROUND

3.1 This report sets out the performance for the quarter ended 31 March 2015 and since inception, as provided by the Fund's investment advisors Hymans Robertson. The full report and performance commentary will be provided at the meeting by the investment advisors as an appendix to this covering report.

## 4. PORTFOLIO SUMMARY

4.1 The Pensions Fund had an overall bid market value of £1,046 m for the quarter ended 31 March 2015. The Fund's value has increased by £54m over the quarter, with the Fund's actively managed mandates being the main enhancers

to performance. The Fund outperformed its benchmark by 0.10%, returning 5.39%.

4.2 The Fund's valuation summary has been set out below in Table 1.

**Table 1 – Portfolio Valuation Summary**

<b>Manager</b>	<b>Mandate</b>	<b>*Asset Value Qtr 3 (Dec 2014) £m</b>	<b>*Asset Value Qtr 4 (Mar 2015) £m</b>	<b>Actual Proportion %</b>	<b>Target Proportion %</b>
Blackrock	Passive Multi-asset	408.5	433.8	41.4	40.5
Harbourvest	Venture Capital	43.4	44.2	4.1	3.0
Investec	Commodities	32.1	31.8	3.0	5.0
M&G	UK Financing Fund	14.3	14.4	1.4	1.0
Schroders	Property	85.1	88.2	8.3	10.0
UBS	Passive Multi-asset	408.4	433.1	41.4	40.5
Cash		0.30	1.3	0.1	0.0
<b>Total Fund</b>		<b>992.1</b>	<b>1,046.8</b>	<b>100.0</b>	<b>100.0</b>

\*Asset bid values based on custodian valuation

4.3 The performance of the individual managers relative to the appropriate benchmarks is as set out in Table 2. This indicates mixed performance from the mandates. Schroders (our property portfolio) underperformed relative to the benchmark, and for a second quarter in our advisors ratings it has the status "on watch". The Investec fund (our commodities portfolio) declined in value over the quarter, but it outperformed relative to its benchmark. HarbourVest has underperformed its benchmark. M & G has outperformed its benchmark since inception, and continues to do so in quarter four.

**Table 2: Managers Performance Relative to Target**

<b>Manager</b>	<b>Quarter Ended 31 Mar 15</b>	<b>12 Months to 31 Mar 2015</b>	<b>Since Inception</b>
Blackrock – Passive Multi-asset	0.0%	0.5%	0.4%
Harbourvest – Venture Capital	-4.5%	-0.5%	-0.6%
Investec – Commodities	0.1%	14.2%	2.2%
M&G – UK Financing Fund	1.0%	4.2%	3.3%
Schroders – Property	-0.6%	-0.7%	-1.8%
UBS – Passive Multi-asset	0.0%	-0.1%	-0.1%

4.4 The performance of individual managers will be analysed and appraised by the Council's Investment Advisor, Hymans Robertson, at the meeting.



## **5. CONCLUSION**

- 5.1 Overall performance for the quarter from the Fund's managers was positive. Although the mandates performance was mixed, the continued strong performance from our passive portfolio has resulted in an increase in fund value. Investec (Commodities) was the only fund to decline in value.

## **6. FINANCIAL IMPLICATIONS**

- 6.1 The comments of the Executive Director for Resources & Regeneration 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 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 The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new public sector Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.
- 9.2 The Council's Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

## **10. ENVIRONMENTAL IMPLICATIONS**

- 10.1 There are no environmental implications directly arising from this report.

## **APPENDICES**

The full report and performance is attached (titled: “Review of Investment Manager’s Performance”). Commentary will be provided at the meeting by the Council’s investment advisors, Hymans Robertson.

There will also be an additional presentation on the Investec Mandate.

## **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.

# London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for First Quarter of 2015

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**Prepared By:**

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Albert Chen - Investment Consultant

Ben Fox - Investment Analyst

For and on behalf of Hymans Robertson LLP  
May 2015

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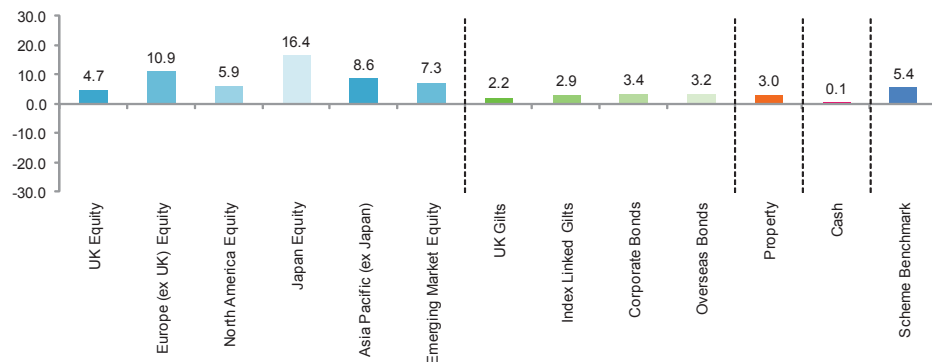
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

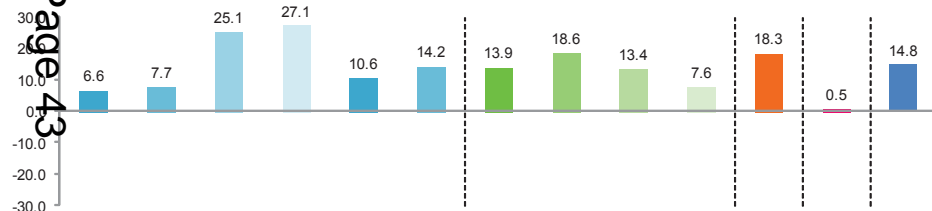
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# Historic Returns for World Markets to 31 March 2015

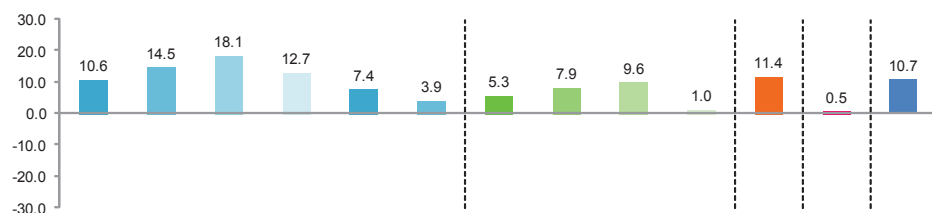
## 3 Months (%)



## 12 Months (%)



## 3 Years (% p.a.)



## Historic Returns - Comment

Global equity and bond markets rose during the first quarter of 2015. A major support was lower inflation, which lessened investors' concerns about short-term interest rates being raised, at least in the immediate future.

Economic news was varied. Although the US has enjoyed higher economic growth than other major markets, news during the quarter was a little disappointing. Poor weather and the impact of the strong dollar were contributory factors. In contrast, data relating to the Eurozone indicated some improvement, albeit from a very low base. The European Central Bank launched a programme of quantitative easing in March. This will result in the purchase of up to €1.1tn of government and private debt over the next eighteen months.

In the UK, official estimates for economic growth in 2014 were revised from 2.6% to 2.8%, the highest rate since 2007, and estimates for 2015 remain strong. In February, the Governor of the Bank of England expressed the view that inflation could temporarily fall below zero because of falling oil prices.

A recurring theme throughout the quarter was when and by how much the US might start to 'normalise' short-term interest rates from the current record low. This difficult task has to be handled with extreme care in the US, and ultimately in other major financial centres.

Key events during the quarter included;

### Global Economy

- Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
- UK inflation (CPI) fell to 0% in February (lowest since records started in 2008);
- Modest deflationary pressures persisted in the Eurozone throughout the quarter;
- The US Central Bank gave mixed signals over potential rises in short-term interest rates;
- Japan's economic growth remained subdued, after emerging from recession in late 2014;
- China set 2015 growth target at 7.0%, lower than that achieved (7.4%) in 2014.

### Equities

- The strongest sectors relative to the FTSE All World Index were Health Care (+5.4%) and Consumer Services (+2.6%); the weakest were Utilities (-7.0%) and Oil & Gas (-5.4%);
- Corporate activity included \$50bn merger of Heinz and Kraft Foods (US) and £10.3bn acquisition of O2 (UK) by Hutchison Whampoa of Hong Kong.

### Bonds and currencies

- The Euro fell to 11 year low against US\$, unsettled by Eurozone quantitative easing;
- German five year bonds sold at a negative yield, joining Denmark, Finland and Netherlands.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

# Portfolio Summary

## Valuation Summary

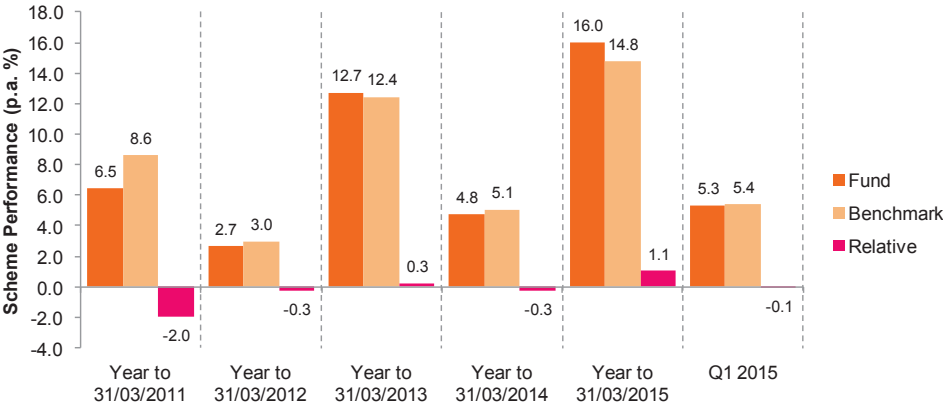
Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2014	Q1 2015			
Global Equity	629.1	673.4	64.3	62.4	1.9
Bonds	188.2	193.7	18.5	18.6	-0.2
Property	88.0	90.3	8.6	10.0	-1.4
Private Equity	43.4	44.2	4.2	3.0	1.2
Trustee Bank Account	0.1	0.3	0.0	0.0	0.0
UK Financing Fund	14.3	14.4	1.4	1.0	0.4
Commodities	32.1	31.8	3.0	5.0	-2.0
<b>Total inc. Trustee Bank Account</b>	<b>995.2</b>	<b>1048.0</b>	<b>100.0</b>	<b>100.0</b>	

## Comments

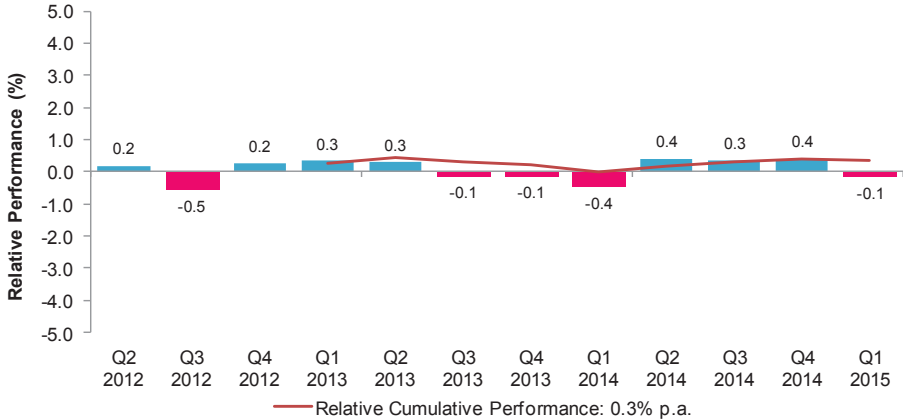
The value of the fund's assets increased by £52.8m over the quarter to £1,048m as at 31 March 2014.

The Fund returned 5.3% (net of fees) over the quarter, underperforming its benchmark by 0.1%. Both passive mandates matched their composite benchmarks. Schroders - Property and HarbourVest - Venture Capital both underperformed their benchmarks, by 0.6% and 4.5% respectively. The M&G - UK Companies Financing Fund and Investec - Commodities mandate outperformed their respective benchmarks by 1.0% and 0.1% respectively.

## Performance Summary <sup>[1]</sup>



## Relative Quarterly and Relative Cumulative Performance

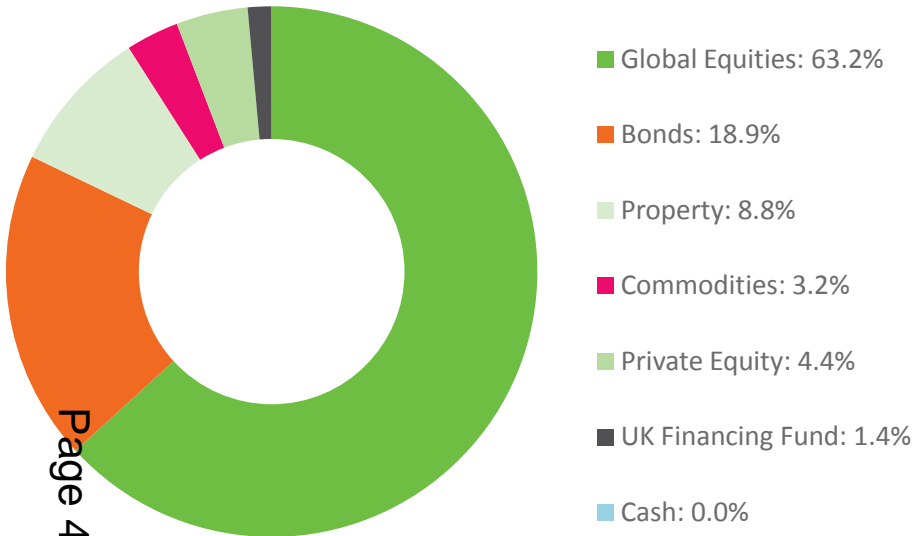


Source: [1] DataStream, Fund Manager, Hymans Robertson

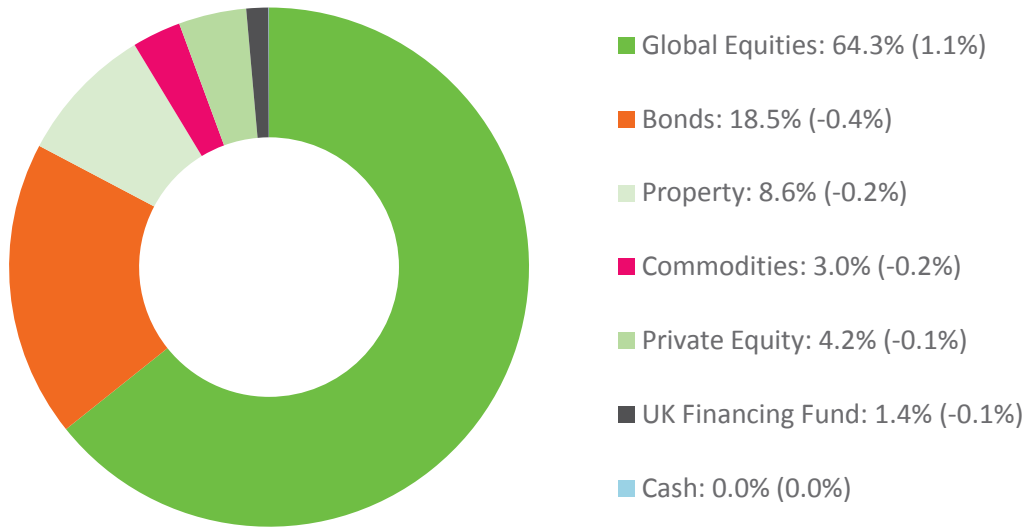


# Fund Asset Allocation

Asset allocation as at 31 December 2014



Asset allocation as at 31 March 2015



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## Comments

The charts above show the Fund's asset allocation as at 31 December 2014 and 31 March 2015. The figures in brackets as at 31 March 2015 represent the net changes over the quarter.

There were no major changes to the Fund's asset allocation during the quarter, with any minor changes due to the relative performance of the Fund's mandates and market movements. The allocation to Global Equities increased, reflecting the strong performance in equity markets over the quarter.

Source: [i] Fund Manager, Hymans Robertson



## Manager Summary

### Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2014	Q1 2015			
BlackRock - Passive Multi-asset	409.1	434.4	41.4	40.5	0.9
UBS - Passive Multi-asset	408.2	432.6	41.3	40.5	0.8
Schroders - Property	88.0	90.3	8.6	10.0	-1.4
Investec - Commodities	32.1	31.8	3.0	5.0	-2.0
Harbourvest - Venture Capital	43.4	44.2	4.2	3.0	1.2
M&G - UK Companies Financing Fund	14.3	14.4	1.4	1.0	0.4
Cash	0.1	0.3	0.0	0.0	0.0
<b>Total</b>	<b>995.2</b>	<b>1048.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

### Manager Summary

Manager	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
BlackRock - Passive Multi-asset	20 Nov 2012	Composite	-	
UBS - Passive Multi-asset	15 Nov 2012	Composite	-	
Schroders - Property	12 Oct 2004	IPD Pooled Property Fund Index	0.75% p.a. above benchmark	
Investec - Commodities	25 Feb 2010	Bloomberg Total Return Commodity Index	-	
Harbourvest - Venture Capital	29 Jun 2006	MSCI All Country World Developed Index	5% p.a. above benchmark	
M&G - UK Companies Financing Fund	01 May 2010	LIBOR	4-6% p.a. above benchmark	

\* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain





# Performance Summary - Managers

## Performance Summary <sup>[1]</sup>

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		BlackRock - Passive Multi-asset	UBS - Passive Multi-asset	Schroders - Property	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Cash	Total Fund
3 Months (%)	Absolute Benchmark	6.2	6.1	2.2	-1.1	2.8	1.2	N/A	5.3
		6.2	6.1	2.8	-1.2	7.6	0.1	N/A	5.4
	Relative				0.1		1.0	N/A	
12 Months (%)	Absolute Benchmark	17.4	16.7	15.9	-6.5	19.1	4.7	N/A	16.0
		16.8	16.7	16.6	-18.1	19.7	0.5	N/A	14.8
	Relative	0.5			14.2		4.2	N/A	1.1
3 Years (% p.a.)	Absolute Benchmark	N/A	N/A	8.5	-6.4	13.4	5.2	N/A	11.1
		N/A	N/A	9.4	-9.3	15.6	0.6	N/A	10.7
	Relative	N/A	N/A		3.3		4.6	N/A	0.3
Since Inception (% p.a.)	Absolute Benchmark	16.0	15.5	2.7	-3.4	7.6	3.9	N/A	N/A
		15.5	15.6	4.6	-5.4	8.3	0.5	N/A	N/A
	Relative	0.4			2.2		3.3	N/A	N/A
			-0.1	-1.8		-0.6			

[1] Since inception: BlackRock (20 Nov 12), UBS (15 Nov 12), Schroders (12 Oct 04), Investec (25 Feb 10), HarbourVest (29 Jun 06), M&G (01 May 10)

Source: DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

# BlackRock - Passive Multi-Asset

## HR View Comment & Rating



There is no significant news to report over the quarter and we continue to rate BlackRock - Passive Multi-Asset as '5-Preferred Strategy'.

## Performance Summary to 31 March 2015

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	6.2	17.4	16.0
Benchmark	6.2	16.8	15.5
Relative	-0.0	0.5	0.4

\* Inception date 20 Nov 2012.

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## Performance Summary - Comment

The BlackRock composite benchmark comprises the FTSE All Share (20.5%), MSCI AC World (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index Linked Gilts (7.7%) and iBoxx £ Non-Gilts All Stocks (7.7%).

The BlackRock multi-asset mandate matched its composite benchmark over the quarter, delivering a return of 6.2%. The outperformance over the longer time periods is as a result of the positive tracking error witnessed last quarter.

The strongest performers over the quarter, in absolute terms, were the Israel Equity Index and Japanese Equity Index Funds. The only underlying fund to deliver a negative return over the quarter was the Canadian Equity Fund.



## UBS - Passive Multi-Asset

### HR View Comment & Rating



There is no significant news to report over the quarter and we continue to rate UBS - Passive Multi-Asset as '5-Preferred Strategy'.

### Performance Summary to 31 March 2015

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	6.1	16.7	15.5
Benchmark	6.1	16.7	15.6
Relative	-0.0	-0.1	-0.1

\* Inception date 15 Nov 2012.

### Performance Summary - Comment

The UBS benchmark comprises the FTSE All Share (20.5%), FTSE All World (inc UK) (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index Linked Gilts (7.7%) and iBoxx Sterling Non-Gilts All Stocks (7.7%) indices.

The UBS multi-asset mandate matched its composite benchmark over the quarter, delivering a return of 6.1%. The mandate has broadly matched its benchmark over all time periods.

All underlying allocations broadly matched their benchmark, with Global Equities delivering the strongest return (7.6%) and UK Corporate Bonds delivering the weakest return (3.2%).



# Schroders - Property

## HR View Comment & Rating



There was no significant news to report over the quarter. We continue to rate Schroders - Property as '4-Retain'.

## Performance Summary to 31 March 2015 <sup>[1]</sup>

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	10 Years (% p.a.)
Fund	2.2	15.9	8.5	2.7
Benchmark	2.8	16.6	9.4	4.6
Relative	-0.6	-0.7	-0.8	-1.8

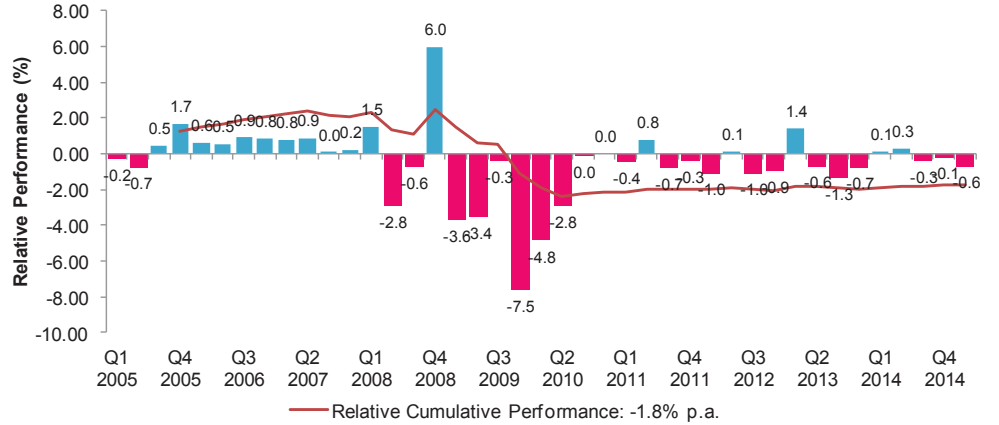
## Performance Summary - Comment

The Schroders mandate returned 2.2% over the quarter, underperforming its AREF/IPD UK Pooled Property Fund All Balanced Index benchmark by 0.6%. The mandate has lagged behind its benchmark over all time periods.

Schroders have actively moved the portfolio's position from central London offices towards existing balanced fund holdings, industrials and alternative sectors. This transition has resulted in Schroders holding a higher than average level of cash whilst they allocate the funds accordingly. This has led to a drag on returns and may persist through Q2 2015 until the funds are fully drawn.

The Industrial Property Investment Fund and Threadneedle Strategic Property Fund IV have been key positive drivers of performance over the quarter. The former has benefitted from an increase in investment in multi-let industrial estates, especially in the south east of England. The latter has been selling assets that it previously bought with the intention of improving and selling on for a profit. This has had a positive impact on the Fund.

## Relative Quarterly and Relative Cumulative Performance



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Source: [1] Fund Manager, Hymans Robertson, Investment Property Databank Limited

# Investec - Commodities

## HR View Comment & Rating



There is no significant news to report over the quarter. We continue to rate Investec - Commodities as '5-Preferred Strategy'.

## Performance Summary to 31 March 2015

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-1.1	-6.5	-6.4	-3.4
Benchmark	-1.2	-18.1	-9.3	-5.4
Relative	0.1	14.2	3.3	2.2

\* Inception date 25 Feb 2010.

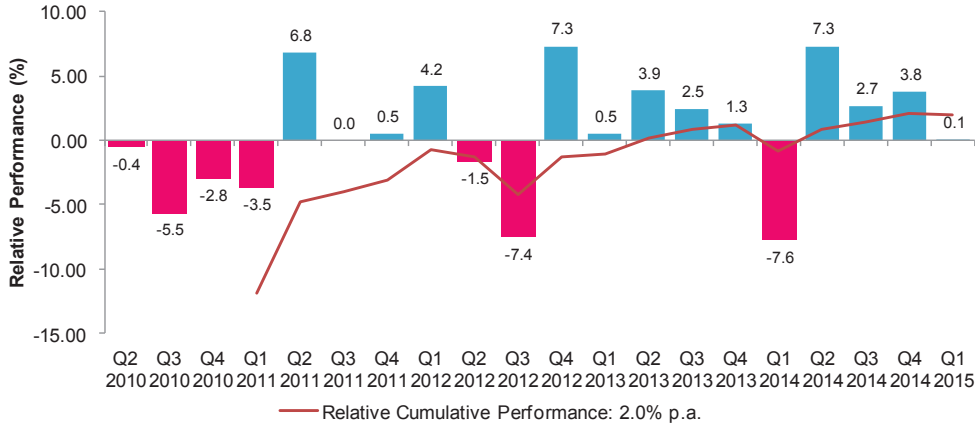
## Performance Summary - Comment

The Investec Global Commodities & Resources Fund fell by 1.1%, reflecting the continued difficult time for commodities. Despite the negative absolute returns over all time periods, the Fund has consistently outperformed its benchmark over all time periods.

The main detractor to performance of the quarter was the Fund's exposure to base & bulk metals. The positioning in aluminium producer Century Aluminium hurt performance. Agriculture & softs also hurt performance. This was largely due to the Fund's positioning in lumber producers in North America.

The Fund's exposure to US refiners and selected large oil & gas exploration and production had a positive impact on performance. Despite this, overall exposure to energy continued to drag on returns.

## Relative Quarterly and Relative Cumulative Performance



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# Harbourvest - Venture Capital

## HR View Comment & Rating



HarbourVest remains one of our highest-rated private equity managers, rated '5-Preferred Manager'. It completed fundraising in April 2015 for its HIPEP VII programme, focused on Europe, Asia Pacific and Emerging Markets, and was scheduling a first close on its US-focused Fund X at around \$1.1 billion at the end of April 2015. 2015 also sees the launch of a Global Fund, which will target all four regions globally and have up to 50% in coinvestments and secondaries, which should allow rapid deployment of capital. HarbourVest has in place a formal plan covering the succession and retirement of senior managing directors; an important point because, although ownership is fairly evenly held it is clear that Brooks Zug, senior managing director and one of the firm's founders 32 years ago, will shortly be following his fellow founder Ed Kane into retirement. He is due to step down from the Investment Committee later in 2015 but retains his place on the Executive Committee for now. Zug's retirement has been signalled for some time, however, and we are comfortable that the firm retains a strong senior management team.

## Performance Summary - Comment

The mandate returned 2.8% over the quarter, underperforming its benchmark by 4.5%. The mandate has underperformed its benchmark over all time periods.

Lewisham is invested in the Buyout and Venture sleeves of the US-focused HarbourVest Partners Fund VIII; the Europe, Asia and Emerging Markets fund, HIPEP V and the Direct sleeve of HIPEP V. Fund VIII has delivered good returns since inception in 2006, with the Buyout sleeve delivering a net IRR of 9.5%, and the Venture sleeve delivering a net IRR of 11.3%. HIPEP V has been less impressive since inception in 2005, delivering a net IRR of 7.1%, while the Direct fund has returned a net IRR of just 4.0%.

The returns shown in the charts are sourced from Northern Trust.

## Performance Summary to 31 March 2015

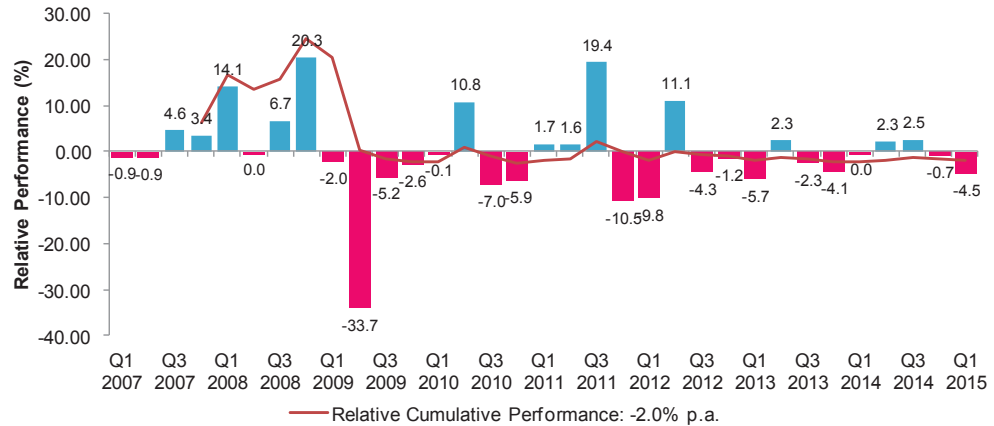
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.8	19.1	13.4	7.6
Benchmark	7.6	19.7	15.6	8.3
Relative	-4.5	-0.5	-1.9	-0.6

\* Inception date 29 Jun 2006.

## 3 Year Relative Return

Actual % p.a.	Target % p.a.
-1.9	5.0

## Relative Quarterly and Relative Cumulative Performance



Source: [i] DataStream, Hymans Robertson

# M&G - UK Companies Financing Fund

## HR View Comment & Rating



There is no significant news to report over the quarter. We continue to rate M&G UK Companies Financing Fund '5-Preferred Strategy'.

## Performance Summary to 31 March 2015 <sup>[1]</sup>

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.2	4.7	5.2	3.9
Benchmark	0.1	0.5	0.6	0.5
Relative	1.0	4.2	4.6	3.3

\* Inception date 01 May 2010.

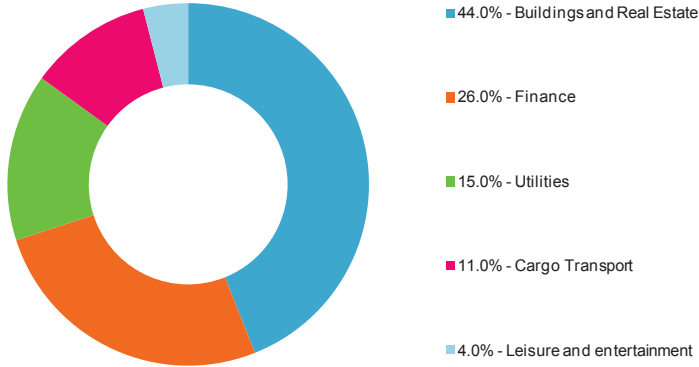
## Performance Summary - Comment

The UK Companies Financing Fund returned 1.2% over the quarter, outperforming its LIBOR benchmark by 1.0%. The mandate has outperformed its benchmark over all time periods.

The Fund comprises of a portfolio of eight loans with a notional value of £680m. As at 31 March 2015, all loans were in compliance with their respective covenants.

The weighted average credit rating was BB+, with an average maturity of 4.5 years. The weighted average credit spread was 433 bps at the end of the period.

## Industry split



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Source: [1] DataStream, Hymans Robertson



## Performance Calculation

### Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left( \left( 1 + \text{Fund Performance} \right) / \left( 1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	<b>0.10%</b>
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	<b>-1.24%</b>
Linked 6 months			-0.25%			0.96%	<b>-1.21%</b>
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	<b>0.34%</b>

#### Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

#### Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

