



AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: TUESDAY, 6 SEPTEMBER 2016 at 7.00 pm

**Committee Rooms 1 & 2
Civic Suite
Catford Road
London SE6 4RU**

**Enquiries to: Sarah Assibey
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COUNCILLORS

Councillor Chris Best
Councillor Liz Johnston-Franklin
Councillor Maja Hilton
Councillor Simon Hooks
Councillor Mark Ingleby
Councillor Paul Maslin
Councillor John Muldoon
Councillor Olurotimi Ogunbadewa

Observers

Independent

Albert Chen, Hymans Robertson

Officers

David Austin, Head of Corporate Resources
Janet Senior, Executive Director for
Resources & Regeneration
Helen Glass, Principal Lawyer
Carol Eldridge, Group Manager - Pensions
& Payroll

Members are summoned to attend this meeting

**Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: Thursday, 25 August 2016**



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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INVESTOR IN PEOPLE

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Agenda Item 1

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision	No	Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: September 8 2016

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 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	Minutes	
Key Decision	No	Item No.
Ward	All	
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: September 8 2016

Recommendation

That the Minutes of the meeting of the Committee, held on June 9 2016 be confirmed and signed.

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Thursday, 9 June 2016 at 7.00 pm

PRESENT: Councillors Liz Johnston-Franklin, Maja Hilton, Simon Hooks, Mark Ingleby, John Muldoon and Olurotimi Ogunbadewa.

Also present: Gary Cummins (UNITE).

Apologies for absence were received from Councillor Chris Best and Councillor Paul Maslin.

1. Election of Chair and Vice Chair

Councillor Ingleby was elected Chair for the Municipal Year 2016-17.

Councillor Hooks was elected Vice-Chair for the Municipal Year 2016-17.

2. Declarations of Interest

Councillor Muldoon declared an interest as a substitute member of the Advisory Board for the Local Government Pension Scheme and as a Councillor with preserved benefits in the LGPS.

3. Minutes

RESOLVED that the Minutes of the meeting held on 9 February 2016 be agreed as a correct record to be amended as follows:

Multi-Asset Manager Selection minutes (from Point 6 onwards) be made confidential as the responses are confidential.

Albert Chen, a representative from Hymans Robertson, explained Hymans Robertson's was, in terms of recommending these managers, to advise the Council and would fall under the advice not being disclosed to third parties- which would make those minutes confidential. The previous papers issued to the managers were confidential also.

Chair advised Albert Chen to explain for member's clarity what was actually disclosed in that meeting. Albert Chen responded; in terms of the 2 managers, between Pictet and Invesco there was a reliance from Pictet on its equity allocation, so the question was put ' how much does your strategy rely on your decision and how much weight does this equity carry?' in which the response was that it is a big part of the process. On that basis, given that the fund already has a significant allocation in equities, his suggestion was that Invesco's more diversified risk based approach would be more appropriate for the fund given its current allocation compared to Pictet's approach.

On Candidate 2, the Committee heard that a significant driver of Pictet's future return would be its allocation to equities and how this allocation was managed over time.

Under Candidate 3, in response to questions from members, in summary Insight, responded that every position in Insight's portfolio had an understood tolerance for loss and one of the strategies they operated was a range-bound strategy. The manager explained the strategy, not Albert Chen.

4. Lewisham LGPS 2016-17 update

Members considered a report which provided a summary of the current position of the Lewisham Pension Fund, and a look ahead for the financial year 2016/17.

The Head of Corporate Resources provided an update on pension related matters in the last period.

- David Austin began with general updates:-
 - i. The pension board has had a number of changes to its constituency where one of the employee representatives-a union member- resigned.,
 - ii. From the employer perspective, Lewisham Homes want to switch between the Director of HR and their Director of Finance,
 - iii. From the Council perspective, when the Head of Learning Development resigns, we will need to nominate a new candidate, which should all take place within the next few months.
 - iv. A potential independent chair (Steven Warren) who is also going to be an independent member on the Audit Panel. Steven Warren who is a former Technical Manager on the Audit Commission is a potential candidate for that position. He is also on the board of another Pension Fund, so he has the recent relevant knowledge with accounting knowledge.
- In regards to Collective Investment Vehicle (CIV) the government consultations are still ongoing; Part 1 went in in February. The feedback was that they did definitely only want single pools, which need to be regulated. Following the transition from participating authorities to these new mandates, the CIV will continue to work to introduce other mandates to the fund to meet the needs of the participating Local Government Pension Scheme (LGPS).
- In terms of the Triennial fund valuation that remains underway- Hymans will run a short training session for members setting out the implications of the valuation for the investment strategy and principles.
- Government policy changes- the Lewisham Pension Fund aligned itself with the CIV proposals and consultation response. Since February, the department has confirmed that the London CIV proposals met its criteria.

- It remains the intention to recruit on a permanent basis to the post of Pensions and Treasury manager in 2016/17. In regards to team training, Fund managers confirmed they will run any training we feel necessary.

The Chair called upon Albert Chen to explain the Investment Strategy Analysis process, which would give some insight into where triennial valuation make lead the PIC.

The representative from Hymans, presented an Investment Strategy Analysis Process and explained that this booklet will give an overview of the modelling approach- it will also give the PIC an idea of what will be considered when looking at investment strategy once valuation is nearing its conclusion. He further explained that looking at the deterministic and the stochastic approach to modelling gives better clarity on risk and the graphs show the probability of success. His presentation included Asset Liability Modelling, an analysis to improve outcomes, strategy and scenario testing.

RESOLVED that the report be noted.

5. Pension Fund Investment Committee Business Plan 2016-17

The committee considered a report which set out the Pension Fund Management Business Plan for 2016-17. The Plan included key objectives for the Fund, major milestones and issues, training and the risk register.

RESOLVED that this report be noted.

6. Investment Performance for the End of Quarter End March 2016

The Hymans Robertson Investment Consultant presented the Committee with a report which set out performance of the Pension Fund investment portfolio and the performance of individual managers for the quarter ended 30 March 2016. The review was distributed. He explained that after February's meeting there were concerns about the equity market. Equity markets are still stretched although the UK equity markets ultimately recovered.

He stated that since the end of the Quarter, things have stabilised slightly but are still quite volatile. Equity markets are up (up to) 3% as are bond markets. Hymans Robertson's position is that markets are still expensive and there are fewer places to invest in at this time.

In summarising how the latest fund performed over the quarter, Albert Chen described the return as 'positive'. Schroders Property, Harbourvest Venture Capital and M&G UK Companies Financing Fund all delivered positive returns, while the BlackRock and UBS passive mandates both broadly tracked their composite benchmarks reasonably well.

The numbers that Hymans Robertson provide are forwarded to them by the managers- the investment managers provide their performance figures which are audited before they are passed on

RESOLVED that this report be noted.

7. Draft Pension Accounts

The Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2015/16.

The account is in negative draw at the moment but nonetheless is broadly in line with the funds expected, given the year has been relatively flat. The notes have gone to be audited although there are one or two still in need of completion.

RESOLVED that this report be noted.

Finish: 20:26

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Presentation from Schroders re their Lewisham mandate		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	September 8 2016

1. PURPOSE

- 1.1. This report is a presentation from the Schroders on their Lewisham Pension Fund mandate – see attached report for members which will be presented by the Schroders Real Estate Capital Partners team.

2. RECOMMENDATION

- 2.1. The Committee is recommended to note the contents of the report.

3. SUMMARY

- 3.1. The report covers:
- The team
 - Market overview
 - Portfolio – overview, performance, and investments
 - Strategy, and
 - Supporting appendices

4. FINANCIAL IMPLICATIONS

- 4.1. There are no financial implications arising directly from this report.

5. LEGAL IMPLICATIONS

- 5.1. 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.
- 5.2. 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.

6. CRIME AND DISORDER IMPLICATIONS

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

7. EQUALITIES IMPLICATIONS

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

8. ENVIRONMENTAL IMPLICATIONS

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

APPENDICES

The full report is attached for members only. Commentary will be provided at the meeting by the Council's appointed fund managers from Schroders.

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 or at david.austin@lewisham.gov.uk

Pension Investment Committee			
REPORT TITLE	Pension Investment Committee Pensions update		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	September 8 2016

1. PURPOSE

- 1.1. This paper provides members with an update on pension related matters in the last period.

2. RECOMMENDATION

- 2.1. Members are asked to note this report.

3. BACKGROUND

- 3.1. This briefing will provide a summary of current topics and follows up on action requested in previous meetings.

4. CURRENT CONSIDERATIONS

Pension Board

- 4.1. The Pension Board has not met in the last quarter. As noted at the previous update, following recent changes, the membership needs to be revisited to reset the Board.
- 4.2. As well as the changes to membership expected above, the Audit Panel has identified an independent member who has the recent and relevant experience and has accepted to serve as the independent Chair of the Pension Board.

Actions arising from previous Pension Investment Committee:

- 4.3 None, although completion of the due diligence on the Invesco mandate is outstanding and will be progressed as both urgent and important.

Collective Investment Vehicle (CIV)

- 4.4 The Joint Committee continue to meet, with the Chair of PIC attending. The next meeting has been pushed back to October to follow the CIVs first Annual General Meeting in September.

- 4.5 None of the funds transitioned to the CIV to date have been ones Lewisham are invested in. Further prospectus for transitioning funds from individual local authority mandates to pooled funds in the CIV are expected. However, work on this has slowed as the focus has been on responding to government consultations (see below) and adjusting to some of the conclusions from those consultations.
- 4.6 In addition to the investment management aspects and following the withdrawal by State Street of their LGPS benchmarking offering, the CIV are considering procuring a replacement service for themselves and members to help maintain effective performance monitoring across the sector. Lewisham are in support of this and participated in the benchmarking done for the response to government consultation on pooling in June.

Triennial fund valuation in 2016

- 4.7 The fund is being valued by our actuaries at the 31 March 2016. Training on the principles and timetable for the valuation was run for members on the 17 March and the investment considerations that flow on from this work were discussed at the June PIC meeting.
- 4.8 All the required inputs from the Council, admitted and scheduled bodies in the scheme have been submitted to the actuaries. The next meeting to discuss progress with the valuation is on the 8 September.
- 4.9 Once the valuation results are known – scheduled for the November meeting - then PIC can consider what changes, if any, it may wish to make to the fund structure and mandate priorities. These will also need to be stated in revisions to the Funding Strategy Statement, Risk Register and Investment Strategy documents. They will not make this year's annual report (due by December 2016) but do need to be agreed and in place for April 2017.

Government policy changes

- 4.10 The government continues to progress proposals for LGPS investment activities to merge into six regional funds and adopt certain sovereign wealth fund characteristics. In particular investments in infrastructure schemes.
- 4.11 Lewisham responded in February 2016 to align itself to the London CIV as a regional fund and supported the London CIV submission to the second phase of the consultation in July 2016. To date the government has confirmed that the London CIV (governance, strategy, operations) meets the expected criteria and that administering authorities will remain responsible for their pension fund strategies and investment decisions.

- 4.12 However, the government has also published a list of exemptions for initial funds that do not have to be moved into pools on any fixed timescales. This is to avoid any unnecessary costs (e.g. selling of life funds to invest in ACS appointed passive mandates) or timing losses to be incurred by administering authorities (e.g. sale of property or private equity portfolios). These exemptions covers over 90% of Lewisham's current mandates. Officers are in discussion with the CIV to understand the implications and this point will be returned to in future updates for PIC.

Team changes and training

- 4.13 During April a temporary Pensions officer was recruited to support the completion of the year end activities and preparation of the Pension Fund accounts. Work is now in hand to recruit on a permanent basis to the post of Pensions and Treasury manager in 2016.
- 4.14 Officers continue to recommend the excellent training tools available via the Pensions Regulator at:
<http://www.thepensionsregulator.gov.uk/public-service-schemes/learn-about-managing-public-service-schemes.aspx>. In addition, as members have feedback that this was also a helpful resource, copies (or links) to the Russell's Fiduciary Handbook are available.
- 4.15 In the last quarter officers have also highlighted training events that have come up with free spaces, in particular the SPS events. Should members have identified other training they would like to attend please can they keep the governance team or David Austin informed.

Other matters

- 4.16 The external audit of the financial statements by Grant Thornton is largely completed (i.e. all testing done) with the final findings and recommendations to be reported to the Audit Panel in September. Some non-material adjustments were identified during the audit which, nonetheless, officers have processed and updated the accounts for. These were mainly due to coding and timing errors identified during the audit. The impact is in the employer and employee contribution balances and related debtors and creditors between the fund and the Council.
- 4.17 Certain technical regulations are currently being consulted on that, depending on their conclusion, may impact the UK LGPS from 2018. The main one is MIFID II from Europe which could see administering authorities classed as retail investors rather than professional investors. The impact would be to fundamentally change the types of mandates the Council might be able to invest in, unless those concerned with the funds governance and operation could demonstrate they meet the necessary professional standards. Officers are

monitoring these and consulting with advisors and will feedback in future updates as the implications and timing of them becomes clearer.

5. LEGAL IMPLICATIONS

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

6. FINANCIAL IMPLICATIONS

6.1. There are no financial implications arising directly 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

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Presentation from M&G Investments re their Lewisham mandate		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	September 8 2016

1. PURPOSE

- 1.1. This report is a presentation from M&G Investments on their Lewisham Pension Fund mandate – see attached report for members which will be presented by the M&G team.

2. RECOMMENDATION

- 2.1. The Committee is recommended to note the contents of the report.

3. SUMMARY

- 3.1. The report covers:
- Fund update
 - Other opportunities
 - M&G Illiquid credit opportunities fund II
 - Leading for impact fund, and
 - Supporting appendices

4. FINANCIAL IMPLICATIONS

- 4.1. There are no financial implications arising directly from this report.

5. LEGAL IMPLICATIONS

- 5.1. 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.
- 5.2. 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.

6. CRIME AND DISORDER IMPLICATIONS

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

7. EQUALITIES IMPLICATIONS

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

8. ENVIRONMENTAL IMPLICATIONS

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

APPENDICES

The full report is attached for members only. Commentary will be provided at the meeting by the Council's appointed fund managers from M&G Investments.

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 or at david.austin@lewisham.gov.uk

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 8

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