

LONDON BOROUGH OF LEWISHAM

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

Present

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

Observer: Mr Tucker

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

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

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1.1	<u>MINUTES</u>	
	<ul style="list-style-type: none">• With regards to matters arising from the meeting on 1st September 2010, the Chair stated that the briefing on management arrangements will be reported to the committee in February 2011 (4.7 of 1 September minutes).• In response to a question by Cllr Feakes at the 1st September 2010 meeting (6.2 of 1 September minutes) the Chair replied that a review of other councils arrangements will be incorporated into the report coming to the committee in February 2011.• Following a query by Cllr Feakes in the 1 September meeting (7.1 of 1 September minutes) - 'why the additions due to the pension fund was shown as a debit instead of a credit', the Chair confirms that this complies with the format required by Statement of Accounting Practice (SORP)• With reference to 4.4 of 1 September meeting. Cllr Feakes inquired about investments being environmentally sound and sustainable.	Scott Jamieson/ Scott Donaldson ED Resources E Akoto
1.2	RESOLVED that the Minutes of the meeting of the Committee, held on 1 September 2010, be confirmed and signed.	
2.	<u>DECLARATIONS OF INTERESTS</u>	
2.1	The Chair declared a personal non prejudicial interest as a member of the Lewisham Pension Scheme.	

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

3. 2010 REVALUATION OF PENSION FUND

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

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

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

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

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

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

The stabilisation mechanism recognises the interdependencies between the investment strategy and contribution rates and the uncertainty of future investment returns. The modelling and discussions with Officers has enable the stabilisation mechanism

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to be applied without prejudicing the long term viability of the fund.

- 3.2 Councillor Best asked about the age profile of workers who have deferred their pensions. Peter Summers replied that it could be lower than active members, possibly around the mid 40s age range.
- 3.3 The Executive Director For Resources stated that there is a gap, in the age profile around the 30 year range and that the average age of the work force is increasing. This has been partially offset by recent recruitment which has primarily involved younger workers . Going forward the impact will depend on the composition of the forthcoming savings policies. and in particular whether it involves extensive use of early retirement. This will impact on the maturity of the fund and the investment strategy.
- 3.4 Mr Tucker asked who decides what is a bad or good time in the investment cycle as nobody seems to think times are good. Scott Donaldson answered that the modelling being used is the joined up way of doing revaluations and the modern way of allowing contribution and investment strategy to be linked together. The approach also helps get through a difficult revaluation that it demonstrates that in the long term stabilisation does not make a major difference to the fund.
- 3.5 The Executive Director for Resources, also commented that the next evaluation is in three years time, so in theory you look at constraining 3 years before you review the fund again.
- 3.6 Councillor Best asked that in terms of underfunding, what is the bench mark of how underfunded the pension fund can be. Peter Summers replied that there is no benchmark, but Lewisham is one of the better funded and prudent schemes. .
- 3.7 The Executive Director for Resources commented that the strategy for the last three years has been a 1% increase and what is being considered is a 0.5% increase. What we are doing is be prudent going forward but mindful of what might come with the Hutton report.
- 3.8 **RESOLVED** That
- the contents of the report be noted and
 - the report be forwarded to the Council's Mayor and Cabinet for incorporation into the 2011/12 Budget Report;

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4. 2010 PENSION FUND FINANCIAL MODELLING

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

This reports sets out the stabilisation mechanism which enables the increase in the contribution rate as set out in the revaluation report to be affordable. Currently 0.5% increase is required per annum until reviewed at the next revaluation.

Development within the fund suggest that it is appropriate at present to reduce exposure to riskier assets, but this does have to be done immediately.

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

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

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

4.5 RESOLVED

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

ED
Resources

5 INVESTMENT PERFOAMNCE FOR QUARTER ENDED 30 SEPTEMBER 2010

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- 5.1 Scott Donaldson presented the report to the committee. The presentation sets out the performance of the pension fund investment portfolio and that of the individual managers for the quarter ending 30th September 2010 and a commentary on the prospects for investment markets. The presenter highlighted the poor performance of the active Managers.
- 5.2 The Chair commented that information in this report will be looked at again in February 2011.
- 5.3 RESOLVED that the report be noted
- The meeting ended at 8.35p.m.