

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.	Minutes	
	RESOLVED that the Minutes of the meeting of the Pensions Investment Committee, held on 13 November 2014, be confirmed and signed.	
2.	Declaration of Interest	
	Councillor Muldoon declared a personal interest as a member of the Local Government Pensions Scheme Shadow Advisory Board.	
3.	Presentation by Schroders	
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 1/3rd 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.

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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