

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

11 June 2015 at 7.00 p.m.

PRESENT: Councillors Chris Best, Kevin Bonavia, Simon Hooks, Mark Ingleby, Liz Johnston-Franklin, Paul Maslin and John Muldoon.

ALSO PRESENT: Albert Chen (Investment Consultant, Hymans Robertson) and Gary Cummins (Unite).

APOLOGIES: Councillor Joan Reid and Tony Smith (Unison).

1. Election of Chair and Vice Chair

RESOLVED that Councillor Ingleby be elected as Chair and Councillor Hooks be elected as Vice Chair for the Municipal Year 2015/16.

2. Declarations of Interest

Councillor Johnston-Franklin declared a personal interest as a member of the Lewisham LGPS.

Councillor Muldoon declared a personal interest as a member of the Local Government Pension Scheme Advisory Board.

3. Minutes

Two typographical errors were highlighted by the Committee. Councillor Hooks noted that his name had been incorrectly recorded as 'Councillor Hook', and at paragraph 9.1 the figure of £1m should read £1 billion

At the previous meeting Members had requested a report on the London Living Wage be brought to the next meeting. The Head of Corporate Finance confirmed that this would be presented at the next Pensions Investment Committee meeting in September.

RESOLVED that the Minutes of the Meeting held on 10 February 2015 be confirmed and signed as a correct record.

4. Lewisham LGPS 2015-16 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 2015/16.

The national debate about whether 89 individual LGPS was appropriate continued, and London was in the process of setting up the Collective Investment Vehicle (CIV), of which Lewisham was a member. The next stage of the process was for the CIV to receive regulatory approval.

The CIV was looking to confirm Lewisham's commitment to support the regulatory submission between now and September 2015, although there had been limited detail provided to date on the types of mandates that would be initially be invested in. Given the timescales, the Head of Corporate Finance confirmed that the existing financial delegations were being examined to see whether the Section 151 officer already had the appropriate delegations to commit and move mandates to the CIV.

The Head of Corporate Finance further noted the given timescales were very tight, and did not appear to give sufficient time for authorities and custodians to ensure due diligence. Before committing, the Council needed to examine the financial details and transaction costs to ensure that the CIV proposals would provide better value for money than what was already in place.

The Chair commented that it would be appropriate to have a standing item on the CIV placed on the agenda.

The Head of Corporate Finance explained that the next valuation of the Fund would be undertaken in March 2016, with any changes in contribution rates taking effect from April 2017. The valuation would assess the impact of auto-enrolment, the move to career average, the pace of maturing the Fund, and the impact of austerity cuts. Following this the Council's risk profile and funding issues would be updated, although the Committee noted that the Council's mandates had been performing well and there was no imperative to substantially change this arrangement.

Members were updated that there were a number of upcoming key issues that the Committee would need to consider, and that an appropriate time to consider and review broader strategic questions may be during the valuation of the Fund in 2016.

RESOLVED that

- a) the report be noted; and
- b) a standing item on the Collective Investment Vehicle (CIV) be included on future agendas.

5. Pension Fund Investment Committee Business Plan 2015/16

The Committee considered a report which set out the Pension Fund Management Business Plan for 2015-16. The Plan included key objectives for the Fund, major milestones and issues, training, and the risk register.

The Principal Accountant commented that training for members of the Committee was a key issue, and at Appendix B of the Business Plan was a list

of training and conferences occurring throughout the year that members could attend. It was particularly recommended that members of the Committee attend training on the core technical requirements for those involved in pension decision making. The Principal Accountant requested that Members completed the Skills and Knowledge Audit at Appendix A, so that a bespoke training programme could be developed for the Committee to be agreed at its meeting in September 2015.

Once a year fund managers were invited to attend Committee meetings and provide a presentation to members on the performance of their fund. Members had also expressed an interest in visiting fund managers on site to assist in their training and development. It was proposed that Members visit M&G in November 2015 and Blackrock in February 2016.

The Chair commented that previous visits to fund managers had been a positive experience, and requested that potential dates be emailed to members.

The Committee noted that in the table at paragraph 5.4 the word 'Intermediary' should read 'Intermediate'.

Following a request from Members, the Principal Accountant confirmed that Committee members would be emailed the link to the Lewisham Pension website where all the key documents were contained. It was further confirmed that the Overview and Scrutiny Manager would be liaised with to ensure that member training was effectively monitored.

The Chair requested that members of the Committee, who had not previously received a copy, be provided with a Fiduciary Handbook from Russell Investments. The Principal Accountant confirmed she would request further copies.

The Chair commented that the establishment of a Pensions Board would be considered part of the Council's pension governance arrangements and as such should be a standing item on the agenda.

RESOLVED that

- a) the Business Plan 2015/16 as set out in Appendix 1 be approved;
- b) Members agreed to complete the skills and knowledge self-assessment form attached at Appendix A to the Principal Accountant by 2 September 2015; and
- c) a standing item on the Lewisham Pension Board be included on future agendas.

6. Investment Performance for the Quarter end 31 March 2015

The Hymans Robertson Investment Consultant presented the Committee with a report which set out the performance of the Pension Fund investment portfolio and the performance of individual managers for the quarter ended 31 March

2015.

Councillor Muldoon requested information on the geographical breakdown of the Fund's equity exposure and the Investment Consultant confirmed that this information could be provided by requesting this information from the Fund's managers.

The Committee noted that the Manager allocations were all within a reasonable range of their target allocations, although commodities were slightly underweight. In respect of manager ratings, the Investment Consultant noted that there were no issues at present with any of the Fund's managers.

The Investment Consultant highlighted the performance of the mandates on a 3 year timescale was ahead of benchmark, although the Committee noted that some mandates did not have 3 year figures as they were seeded in 2012. There had been a marginal underperformance over the most quarter, but relative performance over the past year had been strong and ahead of benchmark.

The Committee therefore noted that the absolute performance for the quarter from the Fund's managers, except for Investec, was positive. Although the Fund's active mandate performance was mixed over the quarter, the continued strong performance, in absolute terms, from the Council's passive portfolio had resulted in an increase in fund value.

RESOLVED that the report and Hymans Robertson appendix be noted.

7. Exclusion of 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:

6. Investment Performance for the Quarter end 31 March 2015 – Appendix B Investec Commodity Fund Review.

8. Investment Performance for the Quarter end 31 March 2015 – Appendix B Investec Commodity Fund Review.

The Committee considered a confidential Appendix to the report and received a presentation from the Investment Consultant.

The Chair requested that the Hymans report on HarbourVest be distributed to Members, and the new funds be investigated as agreed at the previous meeting.

RESOLVED that

- a) Appendix B be noted; and
- b) Hymans Robertson be requested to provide review on the range of products and investment opportunities to the Committee at its next meeting.

9. **Draft Pension Accounts**

The Committee considered a report which set out the draft Pension Fund accounts for the financial year ending 31 March 2015.

Members noted that the accounts presented were awaiting final validation checks and may be subject to change between the meeting and the final sign off by the Chief Financial Officer. Any such changes would be detailed in working papers, for presentation to external audit.

Councillor Muldoon queried whether auto-enrolment had created any increased risk, and whether there were projections of opt out figures. The Head of Corporate Finance commented that until the Council had more comprehensive data drawn over a number of years, it was difficult to get a sense of any emerging patterns.

Councillor Johnston-Franklin queried the tables on page 70 and why there were no figures for 'Dependents Pensions'. The Principal Accountant clarified that the figures were no longer collected separately but included in the administering line.

Councillor Best queried whether the state employer's contribution, as well as the individual member's contribution, could be listed at point (i) of Appendix 1, and it was confirmed that this information could be added in the future.

The Head of Corporate Finance commented that the Council's underlying funding position remained stable, and its position had not radically changed. Following a query from Councillor Best on the funding of other London authorities, The Head of Corporate Finance commented that there were a range of positions across London, percentage wise ranging from the high 50s to fully funded, with the majority in the mid to high 70s.

The Investment Consultant highlighted the difficulty in comparing funding level figures between different authorities, as in isolation these figures did not capture the different assumptions used in the funding valuations for each authority. The Investment Consultant advised that a report could be undertaken that compared the Fund's funding level position against other authorities on a 'like-for-like' basis. The Committee noted his comments and deferred on proceeding with the reporting exercise.

Councillor Hooks raised a query regarding the table at page 69 and whether the Derivative Contracts Assets and Liabilities were meant to display none, or whether they were exactly balanced. The Principal Accountant confirmed that

the table should read 0 as the Fund no longer held any Derivative Contracts.

RESOLVED that the Pension Fund accounts for the year ended 31 March 2015 be noted.

The meeting closed at 8.40 p.m.