

LONDON BOROUGH OF LEWISHAM

MINUTES of the meeting of the PENSIONS INVESTMENT COMMITTEE, which was open to the press and public, held on WEDNESDAY, 15 JUNE 2011 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 6.30 p.m.

Present

Councillors Allison, Best, Fletcher, Maslin, Muldoon, Pattison, Whittle and Wise.

Independent Investment Advisers: Scott Donaldson, Hymans Robertson

Officers: Conrad Hall - Head of Business Management and Service Support
Selwyn Thompson – Group Manager Budget Strategy
Shola Ojo – Principal Accountant Budget Strategy
Omar Farooqui – Accountant Budget Strategy
Jim Ricketts - Interim Capital and Treasury Manager

Apologies for absence were received from Mr Tucker.

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| 1. | <u>APPOINTMENT OF CHAIR AND VICE CHAIR</u> RESOLVED that Councillor Whittle be appointed Chair and Councillor Maslin be appointed Vice Chair of the Pensions Investment Committee for the municipal year 2011/12. |
| 2. | <u>MINUTES</u> RESOLVED that the Minutes of the meeting of the Pensions Investment Committee, held on 10 March 2011, be confirmed and signed. |
| 3. | <u>DECLARATIONS OF INTERESTS</u> All members of the Committee declared an interest as a member of the Lewisham Pension Scheme. |
| 4. | <u>TERMS OF REFERENCE</u> RESOLVED that the terms of reference of the Pensions Investment Committee be noted. |
| 5. | <u>UBS BOND PRESENTATION</u> |
| 5.1 | Mr Digby Armstrong, Client Director and Simon Foster, Portfolio Manager attended the meeting and made a presentation on behalf of UBS. |

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5.2 The Chair said that the UBS (bonds) portfolio was up 1.9% since inception. He asked whether UBS were optimistic in suggesting that interest rates would not change and about financials bearing in mind that the Chancellor George Osborne had announced that he intended to regulate the banks further. In addition, unemployment was at its highest level since 1996. Mr Foster said that he welcomed extra regulation with regard to bond investment because it enhanced security. Profitability may be affected but this principally impacted on equity returns rather than bonds. Mr Foster said that a global standard of regulations that were fair to banks and investors was needed.

5.3 Mr Foster said that the portfolio was overweight to financials at about 4%. This position reflected their confidence in the sector.

5.4 With regard to interest rates, Mr Foster said that the economy was dependent on the financial sector which performs well in 'boom' periods but not when markets are depressed. The Government's borrowing position had to be addressed. However this retrenchment impacted on the wider economy and in particular consumer confidence. To sustain economic activity the Government was keeping rates low. He considered that other methods to support the economy should be investigated.

5.5 Councillor Fletcher asked about business and consumer confidence. Mr Foster said that business confidence was not as bad as consumer confidence which had been poor. However, with housing markets improving and interest rates staying the same, Mr Foster considered that this would increase consumer confidence. Companies have big balance sheets and there were signs that things were getting better. Business had cut back costs during the recession but they need to invest the cash which had been generated through increased profitability. He said that the UK economy looked vulnerable and did not predict much improvement in the near future.

5.7 The Chair thanked Mr Foster and Mr Armstrong for their presentation.

RESOLVED that the presentation be noted

6. INVESTEC COMMODITIES PRESENTATION

6.1 Richard Chadderton and Scott Winship attended the meeting and presented on behalf of Investec.

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- 6.2 The Chair asked how risk was being managed. Mr Winship said that Investec were trying to 'grow' money for the portfolio using commodities. They wanted to deliver a return of +15% with less volatility than in the equities market. He referred to the integrated risk management on page 19 of the presentation and said that their aim was to keep risk between 10-15%.
- 6.3 Councillor Muldoon asked about the risk with regard to rare earth and hedging the portfolio. Mr Winship said that they do not look at rare earth because there are considerable obstacles in gaining access to what is a limited market. With regard to political risk, Mr Winship said that Investec were aware of political risk and the fund was well diversified with no high risk exposures. To mitigate non financial risks Investec have an active engagement policy which is considered important. They were a member of the UNPRI and were in the process of recruiting a member of staff who will be responsible for ensuring that stocks are compliant with Ethical Investments.
- 6.4 The Chair thanked Mr Winship and Mr Chadderton for their presentation.
- RESOLVED that the report be noted.
7. INVESTMENT PERFORMANCE FOR QUARTER ENDED 31 MARCH 2011
- 7.1 The Group Manager Budget Strategy presented the report.
- 7.2 Councillor Best said that performance had been disappointing relative to the benchmark and what this was attributable to. The Group Manager Budget Strategy said that performance had been patchy and Lewisham had supported managers during periods of underperformance having taken a long term perspective. Whilst markets had generally not been conducive to a number of the managers investment styles performance had not improved significantly when markets changed.
- 7.3 Councillor Wise said that Investec's performance relative to the benchmark had been poor. Mr Donaldson said that this was an issue. Because the Investec benchmark was directly related to commodities whilst Investec principally invested in companies with an exposure to commodities. The commodity markets were extremely volatile and were currently buoyant. The Investec approach attempts to reduce the volatility associated with direct commodity investment whilst obtaining exposure to the relatively higher returns.

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RESOLVED that the report be noted.

8. THE INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSIONS FINAL REPORT – THE HUTTON REPORT

8.1 The Group Manager Budget Strategy presented the report.

8.2 Councillor Muldoon asked how many officers would be affected by HMRC's changes which had brought in an annual cap of £50k to pension schemes. The Head of Business Management and Service Support said that there had only been a small amount of publicity by the government on this issue. He said that it would only affect officers on senior grades who received a significant pay increase. Their length of service and the level of pay/salary increase would determine the impact. He estimated that an officer would need to have secure a wage increase of between £10-20k before it would have an impact on an individual.

8.3 The Group Manager Budget Strategy said that the government would be consulting local authorities on their recommendations in the Autumn and a report would be submitted to this committee thereafter. The Chair said that he was particularly interested in the statutory pensionable age and the impact on manual workers of any changes.

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RESOLVED that the report be noted.

9 INVESTMENT MANAGERS BONUS POLICY

The Group Manager Budget Strategy said that the report had been submitted to the Committee at the request of members at the last meeting. Details of managers bonus policies was set out in the confidential papers. The report concluded that bonuses were prevalent in the financial services industry and used to incentivise staff.

RESOLVED that the report be noted.

10 DRAFT PENSION FUND ACCOUNTS – YEAR ENDING 31 MARCH 2011

10.1 The Group Manager Budget Strategy presented the report. He said that paragraph 3.11 should be deleted because all the information required had been received.

10.2 Councillor Best asked whether AVC's were still being promoted The Interim Capital and Treasury Manager said that it is a

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statutory requirement to offer a AVC facility and that details were contained in note 11. The costs and assets associated with the AVC scheme were however not included in the main pension fund accounts.

RESOLVED that the draft Pension Fund Accounts for the year ended 31 March 2011 as set out in Appendix 1 to the report be noted.

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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:

- 12 Review of Pension Fund Investment Management
- 13 Investment Managers Bonus Policy

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

- 12 Review of Pension Fund Investment Management

RESOLVED that the report be noted

- 13 Investment Managers Bonus Policy

RESOLVED that the report be noted

The meeting ended at 9.10 p.m.

Chair