

## LONDON BOROUGH OF LEWISHAM

MINUTES of the meeting of the PENSIONS INVESTMENT COMMITTEE, which was open to the press and public, held on TUESDAY, 6 SEPTEMBER 2011 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7 p.m.

### Present

Councillors Whittle(Chair) Best, Fletcher, Maslin, Muldoon, and Wise.

Independent Investment Adviser: Scott Donaldson, Hymans Robertson

Officers: Janet Senior – Executive Director for Resources.  
Conrad Hall - Head of Business Management and Service Support.  
Selwyn Thompson – Group Manager Budget Strategy.  
Shola Ojo – Principal Accountant Budget Strategy.

Apologies for absence were received from Councillors Allison and Pattison.

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#### 1. MINUTES

RESOLVED that the Minutes of the meeting of the Pensions Investment Committee, held on 15 June 2011, be confirmed and signed subject to Minute 3, Declarations of Interest, being amended to reflect that Councillor Fletcher is not a member of the Lewisham Pension Scheme and did not declare an interest.

#### 2. DECLARATIONS OF INTERESTS

Councillor Maslin declared that he was a Director of Haley Gallery Limited which had recently sold a picture to UBS for \$26,000 and that the interest was personal and not prejudicial as UBS were not under direct consideration at the meeting.

#### 3. RCM PRESENTATION

3.1 Ms Lucy MacDonald, Head of the Global Equity Fund Management team and Mr Thomas Trimborn, senior Product Specialist for Global Equities attended the meeting and made a presentation on behalf of RCM.

3.2 Councillor Fletcher asked to be updated about the Sony holding.

Mr Trimborn said the stock had been owned for some time and Sony had undergone a successful restructuring. However the earthquake had raised questions about Japanese companies

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generally and failures to articulate an investment strategy had led to the reported results.

- 3.3 Scott Donaldson noted the under performance of RCM and asked should the relative recovery have been even better given the change in the equity market from June to August.

Ms MacDonald said this was still an early stage and that while she was pleased about recent performance, comparisons with inception were misleading. Mr Trimborn added that to increase returns massive more risk would have to be entered into.

- 3.4 The Executive Director for Resources, queried the 4.6% cash holding.

Ms MacDonald said the market was low but could go lower and funds should be in hand to take advantage of a severe panic.

- 3.5 Councillor Fletcher asked when did RCM believed the market would bottom out and that while the FTSE was at a 10 year low, it had been even lower.

Ms MacDonald said the market could take another 10% drop as there was a huge amount of uncertainty regarding the politics of debt.

- 3.6 The Chair said he believed consumer confidence would lag behind growth in the UK and there was reliance on China and Germany. He asked about the European perspective

Ms MacDonald said confidence was low throughout Europe, although there was evidence spending intentions were rising in Germany.

- 3.7 The Chair asked if there was any research into how people might spend differently.

Ms MacDonald said the luxury sector was holding up well and Mr Trimborn added that consumer staples and consumer discretionary were geared towards emerging markets.

- 3.8 The Chair thanked Lucy MacDonald and Thomas Trimborn for their presentation.

RESOLVED that the report be noted

4. PRESENTATION by ALLIANCE BERNSTEIN

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4.1 Mr Nicholas Davidson, Senior Portfolio Manager, and Douglas Stewart, the Director of Client Relations, attended the meeting and made a presentation on behalf of Alliance Bernstein.

4.2 Councillor Fletcher asked that in terms of financial stocks, did Alliance Bernstein regret overweighting too early.

Mr Davidson said yes with hindsight but that there had been a general over-reaction to events. Exposure had been slightly reduced during the crisis and overall performance would have been much better without the exposure.

4.3 Scott Donaldson expressed concern as to how would the market look at fundamentals should relative performance not improve.

Mr Davidson said the economic numbers from the USA in the next two quarters could be a catalyst while volatility in the Eurozone seemed inevitable.

4.4 Councillor Best asked in terms of stock selection what approach was there to the flight to quality.

Mr Davidson said the flight made things more expensive but from a quality perspective, Alliance Bernstein looked at the robustness of companies and their ability to be cash flow generators.

4.5 The Chair mentioned the Statement of Investment Principles elsewhere on the agenda, and asked if corporate social responsibility had been taken into account particularly with regard to engagement with tobacco companies.

Mr Davidson replied that the risks around tobacco companies had declined following the settlement of various law suits and what remained was a purely ethical question. He believed any decision to withdraw from investment in tobacco companies could be accomplished without any problem.

4.6 Councillor Wise asked if the Chinese economy continued to grow.

Mr Davidson said there would be a modest slow down in Chinese growth from 10% to 9% but this was not threatening to the world economy.

4.7 The Chair thanked Nicholas Davidson and Douglas Stewart for their presentation.

RESOLVED that the presentation be noted

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5. INVESTMENT PERFORMANCE FOR QUARTER ENDED 31 MARCH 2011

The Group Manager Budget Strategy presented the report.

RESOLVED that the report be noted.

6. Hyman's detailed Second Quarter Investment Performance report

6.1 The Group Manager Budget Strategy and Scott Donaldson presented the report.

6.2 Councillor Fletcher noted Lewisham had slipped from 48 to 84 in the Council league performance tables.

The Group Manager Budget Strategy said statistical comparators with other local authorities were provided and fluctuations were mainly attributed to asset allocation and stock selection. Scott Donaldson said this pointed to underperformance by active managers.

6.3 The Chair suggested officers examine the performance of other local authorities higher in the league tables to see if lessons could be learned.

6.4 Councillor Fletcher noted Alliance Bernstein appeared to be overweight on financials and was informed an imminent bounce back was not expected.

6.5 Councillor Muldoon asked if the currency risk was hedged and was informed that it was not.

RESOLVED that the report be noted.

7 REPORT ON RECENT STOCK MARKET TURMOIL

7.1 A report was tabled by Scott Donaldson.

7.2 Councillor Maslin asked if the commodities picture would be different if gold and oil were omitted.

Scott Donaldson said he was uncertain but as gold and oil were the two biggest drivers, any consideration without them was unlikely to be critical.

RESOLVED that the report be noted.

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8	<u>STATEMENT OF INVESTMENT PRINCIPLES</u>	
8.1	The Group Manager Budget Strategy presented the report and said the latest annual review had made no material changes to the Statement of Investment Principles (SIP).	
8.2	The Chair said he believed the corporate social responsibility agenda was looming large on the horizon and he believed a review of the SIP should be considered. He urged officers to look at other local authority SIPs such as Greater Manchester where relevant issues were being addressed.	
8.3	The Executive Director for Resources reminded members a major review of the SIPs had been undertaken during the last administration and very considered legal advice had been received. She said she was happy to revisit the last review and see if changes were required taking into account more recent legal judgements.	
8.4	Councillor Wise asked for copies of the last review to be circulated to committee members.	ED Res
8.5	Councillor Fletcher asked about the Independent Investment Adviser position and was informed it was currently vacant.	
8.6	The Chair asked if options for social investment could be presented to the committee.  The Executive Director for Resources said she would bring a future report to the committee and that she had held some discussions with providers but that at the moment many products and investment vehicles were not ready.	
8.7	Councillor Maslin said the choice of any future product would have to be based on sound investment principles and he was supported by Councillor Muldoon who reminded the Committee of a duty to be dispassionate and that corporate social responsibility would have regard to due diligence.	
8.8	Councillor Best recounted that in the past key votes had been reported to the committee and she asked that this practice be resumed.	ED Res

RESOLVED that

(1) the revised Statement of Investment Principles be approved; and

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(2) the Executive Director of resources be asked to consider a review of the Statement of Investment Principles taking into account updated legal advice.

9 ANNUAL GOVERNANCE REPORT

The report was presented by Sue Exton and Amy Thorpe who confirmed the Audit Commission had issued an unqualified opinion on the Pension Statement.

The Chair thanked Sue Exton and Amy Thorpe for their presentation.

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 Minutes
- 12 Passive Manager

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

11 Minutes

RESOLVED that the closed minutes of the meeting held on June 15 2011 be confirmed and signed.

12 Passive Manager

An updated timetable on the recruitment and selection process was distributed by Scott Donaldson.

RESOLVED that the report be noted.

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The meeting ended at 9.22 p.m.

Chair