MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
25 March 2014 (7.30 - 9.00 pm)

Present:

COUNCILLORS

Conservative Group	Rebbecca Bennett (Chairman), Melvin Wallace (Vice-Chair), Steven Kelly and Roger Ramsey
Residents' Group	Ron Ower
Labour Group	Pat Murray
UKIP	Fred Osborne

Apologies were received for the absence of Andy Hampshire (GMB).

The Chairman reminded Members of the action to be taken in an emergency.

37 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 17 December, 2013 were agreed as a correct record subject to the addition of Councillor Fred Osborne in the list of those members in attendance at the meeting, and signed as a correct record by the Chairman.

38 **BREYER GROUP PLC**

Officers advised the Committee that since our last meeting it had been necessary to negotiate with Breyer group plc to ensure they were able to deliver the contract at a reasonable price. Negotiations had been around the value of the bond requirements and the amount of the employer's contribution rate.

Officers indicated that they were satisfied with the negotiated settlement and were confident this offered best value to the Council.

We have **noted** the oral report.

39 **FUNDING STRATEGY STATEMENT**

The Local Government Pension Scheme Regulations 1997 require Pension Funds to produce and regularly review a Funding Strategy Statement. In preparing the Funding Strategy Statement (FSS)the administering authority had had regard to:

- the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations) and,
- guidance published by CIPFA updated in 2012. This was the framework within which the Fund's Actuary carried out triennial valuations to set employers' contributions and provided recommendations to the administering authority when other funding decisions were required, such as when employers join or leave the Fund. The FSS applied to all employers participating in the Fund.

Officers advised that the draft Statement had been distributed to all participating employers in the fund. The closing date for consultation was 25 March, 2014 and no comments had been received.

We have **agreed** the revised Funding Strategy Statement.

40 **DEVELOPMENT OF THE COLLECTIVE PENSION INVESTMENT VEHICLE**

Officers advised us of recent developments for the creation of a Collective Pensions Investment Vehicle across London.

On 11 February, 2014 the Leaders Committee of London council's approved a report and the underlying business case supporting the creation of a Collective Investment Vehicle (CIV) across London. All London Boroughs had been invites to join on a voluntary basis.

The Leaders Committee had endorsed the following in order to establish the CIV.

a) A private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (ACS Operator)

b) Local Authorities wishing to participate would :
   - become shareholders in the ACS Operator;
   - contribute £1 to the ACS Operator as initial share capital;
   - Appoint an elected Councillor to act for the Local authority in exercising its rights as a shareholder of the ACS Operator.

c) A new Joint Committee (The Pensions CIV Joint Committee) would be established to act as the representative body for those London Boroughs wishing to participate in the arrangement.

d) All London Authorities were asked to give their responses by 14th April 2014 indicating whether the wished to participate in the CIV.

The following overarching principles were adopted during the development of the proposed structure.

- Investment in the ACS should be voluntary. A borough should be able to decide they do not wish to participate, or to the extent they initially decided to participate, to choose to withdraw their investment.

- If a borough chose to invest, it would be able to choose which asset classes to invest into, and how much they might invest into each asset class.

- The boroughs should have sufficient control over the ACS Operator, in order to be assured that it would be acting in their best interests.

- The ACS Operator would provide regular information to participating boroughs regarding the performance of managers, investment options, and other areas, so that information continued to be available to the same extent it was currently in order for boroughs to make investment decisions.

- Authorities seeking to invest in the ACS would also take a shareholding interest in the Operator (and have membership of the Pensions Joint committee).

- The ACS would not increase the overall investment risk faced by boroughs.

After a long discussion during which a number of questions were not answered satisfactorily we have **agreed** to advise the Council not to participate in the Collective Investment Vehicle at this time.

We would review our decision when further information was available concerning the number of boroughs who had joined the fund and around the formation and creation of the Authorised Contractual Scheme Operator. We would also like further information on the initial start-up and on-going costs.

41 **BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2013/14**

Each year the Pension Fund Administering Authority is required to submit a Business Plan to the Pensions Committee for consideration. The Business Plan should contain:

- Major milestones & issues to be considered by the committee
- Financial estimates – investment and administration of the fund
- Appropriate provision for training
- Key targets & methods of measurement
- Review level of internal & external resources the committee needs to carry out its functions

- Recommended actions to put right any deficiencies.

We have considered the Business, and accepted that the section relating to training may need to be revisited following the elections in May, and **agreed** that it be submitted to the Council.

42 **PENSINON FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER, 2013.**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 31 December, 2013 was 2.7%. This represented an under performance of 0.7% against the combined tactical benchmark and an out performance of 3.7% against the strategic benchmark.

The overall net return for the year to 31 December, 2013 was 15.8%. This represented an out performance of 2.3% against the annual tactical combined benchmark and an out performance of 19.2% against the annual strategic benchmark.

1. Hymans Robertson (HR)

Market Summary

- Signs of a domestic and global economic recovery continued over the quarter, prompting the Bank of England to upgrade its economic forecast for the UK.

- Global equity markets had performed strongly over the quarter as investor sentiment improved and markets reacted to news of the Fed's decision to commence tapering. In Sterling terms, the US was the best region for equities (7.9%) followed by North America (7.5%), Europe ex-UK (5.8%) and the UK (5.5%). Returns on the Japanese market were buoyant at 9.7% over the quarter, but remained broadly flat in Sterling terms as the Yen continued to depreciate. The Emerging Market and Pacific ex-Japan regions lagged behind at -0.7% and -1.2% respectively.

- Conventional and index-linked gilts had struggled over the quarter as interest rates rose, returning -1.4% and -0.9% respectively. Corporate bonds had benefited from narrowing spreads, with returns broadly flat.

Scheme Performance

- Assets were valued at £485.3m as at 31 December 2013, an increase of £11.3m over the quarter. The total return on the Fund's assets over the quarter was calculated to have been 2.8%.

- Performance from the Fund’s active managers was positive over the course of Q4, 2013 with all managers either performing in line with, or ahead of, benchmark.

Management changes

- During the quarter the Fund had terminated its investment with the Standard Life UK Equity mandate. On 6 December 2013 the Fund disinvested £97.6m from Standard Life Investments transferring it to Barings Diversified Asset Allocation Fund.

- A portion of the Fund's assets currently managed by State Street had been disinvested during the quarter with the proceeds being invested into Baillie Gifford Diversified Growth Fund. This was undertaken in three tranches during November and December with a total of £50m being disinvested from the global equity portfolio and £20m being disinvested from the Sterling Liquidity Fund.

Asset Allocation

- As at the quarter end, the Fund’s direct allocation to equity assets was slightly overweight target at 26.8%. On a look-through basis, the allocation to equity assets was 46%. This compared with an underlying equity allocation of 62% at end Q3, 2013, the change reflecting the change in strategy implemented during the course of the quarter.

Over the quarter all the fund managers had matched or bettered their benchmark. Over the year the picture was the same with the exception of UBS Triton which had experienced well documented problems.

2. Royal London Asset Management (RLAM)

   We welcomed Paul Rayner (Head of Government Bonds) and Fraser Chisholm, (Client Account Manager) to the meeting. Quarter 4 had been a challenging quarter for the bond market, and although the portfolio had lost value the benchmark had been exceeded.

   We were advised that Quarter 1 had seen an upturn with the fund value increasing by over £3m.

   We thanked Paul and Fraser for their presentation.

We have **noted** the report.

Chairman