

LONDON BOROUGH OF SOUTHWARK PENSION FUND
PENSIONS ADVISORY PANEL

Date: 6 th September 2016	Chair Person: Fiona Colley
Time: 10am	Notes of meeting: Caroline Watson
Venue: Southwark Council 160 Tooley St, London, SE1 2TZ	
Attendees: Cllr Fiona Colley (Chair); Cllr Eliza Mann; Duncan Whitfield; Fay Hammond; Chris Cooper; Jo Holden (Mercer); Mike Ellsmore (LPB)	

Item No	Item
1	Apologies: Cllr Jon Hartley
2	Disclosures of Interest & Dispensations: None

3	<p>Presentation by Environment Agency (Dawn Turner)</p> <p>Local Pensions Board members attended for this agenda item.</p> <p>The presentation outlined how the Environment Agency has incorporated Environmental, Social and Governance considerations in its investment strategy.</p> <p>Following the presentation, discussion points were on the following:</p> <ul style="list-style-type: none"> • How this can be achieved given the requirement to pool assets • How engagement is carried out: stranded assets create an action list for fund managers to engage. An advantage of pooling is that bringing assets together will strengthen engagement • The carbon weighting within indices has reduced over time and therefore LGPS funds investing in passive equities have reduced their investments in this area. <p>DW: need clarity around what products the London CIV will offer and when, in order to consider this area fully.</p>
4	<p>Investment Strategy Review</p> <p>JH: As 2016 is actuarial valuation year, it is recommended that the continuing suitability of the current investment strategy is considered.</p> <ul style="list-style-type: none"> • The Fund has had strong returns over the last few years. But we now need to consider expectations for equity returns going forward. May consider illiquid assets such as infrastructure as the Fund could benefit from the illiquidity premium given it is a long term investor. • Recommend stress testing or scenario analysis re risks in particular environments in future. The Investment Strategy Statement is a governance tool which will document the risks being taken and their financial impact and also how these risks are being mitigated. • Brexit: fall in Sterling positive for overseas equity returns (don't have currency hedging so benefitted). Should consider a currency hedge to lock in gains. • ESG: Mercer to draft a set of investment principles which PAP can then adapt. FC: Council plan and diversity strategy to be sent to JH next week and included in this to ensure consistency. • Recommend considering currency hedging as an immediate priority. If Sterling starts to rise again could lose gains made. To achieve broad reduction in volatility, recommend hedging half of equity exposure. This level of hedging tends to reduce volatility without impacting on returns. Recommend phasing in a hedge.
5	<p>Investment Update</p> <p>Mercer</p> <ul style="list-style-type: none"> • JH: performance broadly in line with target. • BlackRock have underperformed in ARB and DGF funds. ARB: just below median manager over last 12 months. DGF: in bottom 25% of managers. Recommend they attend next PAP. • Newton have outperformed over 12 months by 5%. Need to ensure they are well prepared for market changes.

	<ul style="list-style-type: none"> Frogmore have requested an extension from investors re Brexit and the uncertainty created. <p>JPM Performance Reporting</p> <ul style="list-style-type: none"> Discussion on role of performance reporting vs. Mercer investment report. Also, the role of an independent adviser and how relevant/required the JPM reports will be in future. All PAP and LPB members to be invited to a manager meeting half day. To include Blackrock, Newton and TH Real Estate and possibly Frogmore. Give a specific brief: i.e. to cover ESG as well as performance. To be scheduled for middle/end of October.
6	<p>The minutes of the 7th June 2016 meeting were agreed as accurate.</p> <p>Matters Arising:</p> <ol style="list-style-type: none"> Potential conflicts of interest regarding pension fund direct property investments in Southwark: PAP members were referred to legal advice provided which advised that the potential for conflicts of interest exists, but has a very low risk. Agreed that this issue will continue to be monitored to ensure that don't have members of PAP involved in planning decisions re pension fund properties. Planning committee to be alert to this. New independent advice arrangements: covered under agenda item 5.
7	<p>London CIV and Pooling Progress Update</p> <ul style="list-style-type: none"> DW: 2 Bailie Gifford mandates and an Allianz mandate are live. Fund has signed off with Legal and General Investment Management into a lower fee arrangement with everything else remaining the same. BlackRock will have a similar arrangement with life funds and an ACS attachment sometime in the new year. Infrastructure still an unknown The issue of the relationship between Unions and the London CIV was addressed by the Investment Committee of the London CIV giving Hugh Grover the task of looking at how this is managed. Hugh and Lord Kerslake attended a meeting of the Greater London Employment Forum in June 2016 to provide an update on the work of the London CIV. Cllr Fiona Colley and Sue Plain (Unison) also attended.
8	<p>Draft Pension Fund Annual Report</p> <p>To be sent by email to PAP members when complete.</p>
9	<p>Local Pension Board Update</p> <p>ME: review of governance arrangements carried out by Aon Hewitt has been completed. To report back in October and PAP to be included in this.</p>
10	<p>Standing Items</p> <ol style="list-style-type: none"> M&G mandate now fully funded.

	<p>b) Training schedule: to send details of LAPFF conference to PAP members once available.</p> <p>c) Pensions Services Update (ML): hosting of pension fund administration system to go to Heywood. The pensions services section is being reorganised and PAP were advised of the changes being implemented.</p> <p>d) Members were asked to note the responsible investment and engagement monitor.</p>
11	<p>AOB</p> <ul style="list-style-type: none"> • CC: referred to the scheme members briefing previously discussed by PAP and agreed to take place after the annual report is published. It was agreed that this will take place in March and will include ML's replacement, DW and FC. To include demonstration of self service facility and the investment strategy review. To be raised at the October LPB meeting to obtain views re content. • LAPF Awards: Southwark pension fund was highly commended in the small LGPS pension fund of the year category. • Section 13 update: following a workshop on this an update was provided on the work of GAD in relation to the 2016 valuation and the requirement for data to be reported on a like for like basis. LBS fund had no concerns raised in the 2013 valuation dry run report.