

LONDON BOROUGH OF SOUTHWARK PENSION FUND
PENSIONS ADVISORY PANEL

Date: 5 th December 2014	Chair Person: Fiona Colley
Time: 10am	Notes of meeting: Pauline Birbal
Venue: Southwark Council 160 Tooley St, London, SE1 2TZ	
Attendees: Fiona Colley; Eliza Mann (EM); Jon Hartley; Duncan Whitfield; Fay Hammond; Chris Cooper; Chris O'Brien; Caroline Watson; Yvonne Thompson-Hoyte; Pauline Birbal; David Cullinan; Emily McGuire (EMCG); Jo Holden	

Item No	Item
1	Apologies: None
2	Disclosures of Interest & Dispensations: None
3	Matters Arising: <ul style="list-style-type: none"> • Approval of minutes of the previous meeting
4	Introduction to Mercer <ul style="list-style-type: none"> • On behalf of PAP gratitude was expressed to Aon Hewitt and Emily for their service to London Borough of Southwark. This was the last meeting that Aon Hewitt will attend in their capacity as investment advisers to the Fund • Introduction to Jo Holden lead consultant from Mercer, who was attending the meeting as an observer only. Mercer will commence as the Fund's investment advisers from January 2015.
5	Investment Update Report David Cullinan (State Street) <ul style="list-style-type: none"> • The Fund return of 3.5% was 0.3% behind benchmark in Q3. 1 and 3 year return behind benchmark, a modest underperformance. • Stock selection in equities, the above benchmark commitment to cash and below benchmark weighting in property was unfavourable. • Fund close to top of rankings (3rd) over quarter. Ranked 25 over 3 and 5 years so in top quartile (this is down to asset strategy) BlackRock and LGIM: no concerns over quarter – all within their tracking error • Newton: return for last quarter including management fees was 3.0% (excl fees 3.1%), which was slightly behind the benchmark of 3.2%. Asset allocation was unfavourable due mainly to the above benchmark commitment to Continental European equities. Over the last year the return of 10.4% was 1.3% behind the benchmark of 11.8%. • TIAA Henderson: return of 4.4% was 0.3% below the IPD All property benchmark of 4.7% over the last quarter. Over 3 years TIAA Henderson has underperformed the benchmark.

	<p>Emily McGuire (Aon Hewitt)</p> <ul style="list-style-type: none"> • Total value of the fund's assets rose by £36.7m over the last quarter to £1.12bn as at 30/09/14 • Henderson: 2 purchases in quarter drag on performance (re transaction costs). • Newton still holding cash. Volatility in the markets may assist Newton in improving performance. • The slight underperformance of benchmark is mainly due to being underweight in property and a marginal underperformance of the global equity mandate.
6	<p>Property Review</p> <ul style="list-style-type: none"> • A review of the current property investments led to the exploration of 'boutique-type managers'. • Duncan and Councillor Colley visited Frogmore (a property manager that has approx 40 employees, investing 58% in London & South East). They currently don't work on behalf of any other LGPS funds. Examples were provided to PAP on recent projects managed by Frogmore. Boutique manager fees could be on the high side, but as we would be their first LGPS client, it is expected that there would be room to negotiate • There is no need to act immediately and rush into making changes as Henderson are doing reasonably well, but we have been massively encouraged of the alternatives to Henderson. • Other potential managers to be looked at are Invesco and The Cording Group. <p>Action: DC & FC to keep researching and looking at other managers and report back further to the PAP.</p>
7	<p>Investment Strategy Review – Blackrock presentation</p> <ul style="list-style-type: none"> • James Edwards from Blackrock attended for this agenda item. He gave a presentation on Diversified Growth (DGF) and Absolute Return Bond (ARB) Funds. The purpose of this was to aid decision making on whether these were appropriate asset classes for the fund. • DC: supports both DGFs and ARB funds and supports the proposed 10% allocation. FC, EM and JH all in support of this being implemented. • To be noted that this will achieve a steady return over long term thereby reducing volatility. However when equity markets increase, these funds will achieve lower returns over short term. • Agreed: recommendation to Strategic Director of Finance and Corporate Services that 10% of the fund is invested in DGF and ARB funds. • <p>Action: Officers to arrange implementation with timetable being proposed of completion by end of January 2015</p>
8	<p>Creation of a local pension board - implementation</p> <ul style="list-style-type: none"> • PAP were asked to consider a report on the creation and implementation of a local pension board

	<ul style="list-style-type: none"> • Additional guidance since the last meeting was released and PAPs views are being sought on: • (i) Size of the board (page 78, item 4) - Consideration: the council is proposing a membership of 4 to include 2 employer members and 2 pension fund members. Southwark Council is the largest employer with 98% of the membership and the remaining is employed by 41 employer bodies, therefore being the key employer it is deemed to provide the employer representatives. It is proposed that the employer members are the Head of Information and Financial Governance and the monitoring officer (or their nomination) and that the employee members are appointed from each of the 2 trade unions represented on PAP. • (ii) Need for an independent chair (page 79, item 6) - Consideration: the regulations allow for the appointment of other members who are not there to represent employers or scheme members, e.g. an independent chair or sharing a chair with another local authority LPB. The post will be a non-voting position, experience and training important, possibly a retired member. CC: ok with role of Chair as a facilitator but if they had voting rights he would have an issue with that. It was recommended that DW approach retired Bexley director regarding the role of Chair. • (iii) Reporting framework for LPB (page 83, item 16) - The guidance suggests that a report to full council or another committee/officer with delegated authority could include: a summary of the work undertaken by the LPB, whether there were areas of risk or potential concern that the LPB wish to share with the administering authority; details of any conflicts of interest that have arisen and how these were managed; details of training received and annual work planning and financial resource requirements of the board. <p>Action:</p> <ul style="list-style-type: none"> (i) Appoint 2 employer reps and 2 member reps as outlined above. Appoint independent chair for a year and review. Duncan & Fay to discuss cost of recommendation and put to PAP before next meeting (Terms of Reference). (ii) Include a statement from Independent Chair outlining the years work in the Pension Fund Annual report.
9	<p>Customer Survey</p> <ul style="list-style-type: none"> • The customer survey was published online on 3 December 2014. Current employees can access the survey on the Source. Deferred & retired members could be made aware of the survey via their annual statement, although this is likely to be too late, otherwise a newsletter in January. <p>Action: FH and ML to look at the cost of distributing to deferred & retired members. Report back initial results to PAP in March.</p>
10	<p>Pension Fund Annual Report</p> <ul style="list-style-type: none"> • Auditors opinion was clear • Published on the website <p>Action: Make all scheme members aware the annual report is on the website. Cost to be included in the awareness of the survey for deferred & retired members (ML)</p>

11	<p>Standing items</p> <ul style="list-style-type: none"> • CIV: £1 share bought, also invested £25,000 to help start the project. Councillor Colley and Duncan will be attending the London Councils meeting on 11 December 2014 to catch up on the latest developments. DW: CIV asking for further funding of £50,000. By April to fund setup costs. Papers for meeting on London Council's website. Information obtained at meeting to be distributed to PAP. • Training – a schedule of training will be circulated for members to complete when they attend training. This will be reported back at every PAP meeting and also logged in the annual report. Invites will go out as and when they are received and members can decide what they can and cannot attend. • Pension Service Team update: There was a discussion on the end of Contracted-Out Employment and Guaranteed Minimum Pension (GMP) reconciliation due 2016 & 2018 respectively. Further discussion and consideration will have to be made e.g. admin issues, cost etc. <p>Action: Malcolm to investigate how efficiently and economically we can do the reconciliations, whether it be an external agency or internally.</p> <ul style="list-style-type: none"> • Complete stock list as at 30/09/14 – noted.
12	<p>AOB</p> <ul style="list-style-type: none"> • Union query re National Express (NE) holdings – we do not hold direct holdings with NE, but will have exposure in the pooled funds. <p>Action: Advise BlackRock and LGIM of views on this vote (but noted that cannot require them to vote in a particular way)</p>