

LONDON BOROUGH OF SOUTHWARK PENSION FUND
PENSIONS ADVISORY PANEL

Date: 25 th September 2014	Chair Person: Fiona Colley
Time: 9.30am	Notes of meeting: Pauline Birbal
Venue: Southwark Council 160 Tooley St, London, SE1 2TZ	
Attendees: Duncan Whitfield; Eliza Mann (EM); Jon Hartley; Chris Cooper; Chris O'Brien; Fay Hammond; Pauline Birbal; David Cullinan; Emily McGuire (EMCG); Caroline Watson	

Item No	Item
1	Apologies: None
2	Disclosures of Interest & Dispensations: None
3	<p>Matters Arising</p> <p>Response to auditor's recommendations</p> <p>Recommendation – money should go straight into Pension Fund bank account as opposed to the main account and then transferred.</p> <p>PAP response – There is a separate PF bank account, but due to systems limitations monies cannot go directly into this account. It has to be credited to the main account then transferred out. Southwark are compliant with the regulations, noted concern. No action taken.</p>
4	<p>Performance Report</p> <p>David Cullinan (WM)</p> <ul style="list-style-type: none"> • Fund in line with benchmark in Q2 with a return of 3.0%. 1, 3 & 5 years slightly below • Fund asset allocation – over in Equities, under in Property • Fund performance improved over last 2-3 quarters – fourth percentile in Q2 2014 • Lower volatility than the average LGPS fund • Noted some Blackrock and LGIM funds slightly below benchmark in short term • Newton: return for last quarter less favourable. Over 1 & 3 year return below investment targets • Henderson: 2.4% above IPD All property benchmark of 5.1%. Long term slightly below benchmark <p>Investment Update Report</p> <p>Emily McGuire (Aon Hewitt)</p> <ul style="list-style-type: none"> • Fund's assets rose by £31m over the last quarter to £1.08bn • Market messages are mixed. Volatility has fallen to very low levels, but bonds and equity sector performance point to greater caution.

	<ul style="list-style-type: none"> • TIAA Henderson significantly outperformed the benchmark which offset some underperformance from Newton. Being underweight in property has detracted from overall returns given its strong performance over the quarter • Newton performance was flat last quarter. They have a defensive stance and their high cash holding has been a drag on performance. • P9 – Property: direct holdings strongest performing component in the portfolio, dampened slightly by indirect holdings. Contracts have been exchanged on 12-16 Clerkenwell Road, London. Terms have been agreed for the purchase of The Blue Building, London. Cash remaining in the portfolio is £12.2m.
5	<p>Investment Strategy Review</p> <ul style="list-style-type: none"> • Current position (June 2014) Equity 65%, Property 15%, Bonds 20%. Aon Hewitt recommends rebalancing towards existing strategy of 60% Equity, 20% Property, and 20% Bonds. • The current strategy appears reasonably robust under possible changes in the membership structure. However, small refinements expected to improve outcomes • Three potential asset portfolios were presented – Option A: make changes within existing manager structure, Option B: add one new manager, Option C: add increased complexity • Option A recommended: allocate to an absolute return bond fund (purpose – capital preservation); increase emerging market exposure within passive equities; allocate to a diversified growth fund (the original OJEU procurement for Blackrock and LGIM was designed to allow the flexibility to make benchmark changes utilising pooled funds); increase property weighting (separate paper). Future: consider introduction of Liability Driven Investment techniques and alternative equity indexation • DC: using multi asset approach will reduce equity risk (LGPS collective risk approach) • Discussion on existing active equities manager: concerns over long term performance. Agreed: allow more time for this mandate considering the move from Aon Hewitt to Mercer. It will be a decision for PAP re whether the fund should go more passive and less active. But implications for future triennial actuarial valuations if more is allocated to passive. • Discussion around role of CIV in above changes - EMCG: as passive is being implemented first and other asset classes are further down line, recommend go ahead and implement changes now and switch to CIV later if appropriate. • Implementation of portfolio A: EMCG recommended mini competitions on each along with presentations from Blackrock and LGIM. Would aid understanding of the asset classes and enable assessment of fees. To be arranged for next PAP meeting. • Mercer to attend next PAP meeting.
6	<p>Future options for Property Mandate</p> <ul style="list-style-type: none"> • EMCG: recommendation to rebalance back to 20% strategic allocation (would mean additional £60m from equities to property). • Recommend a single manager to manage the whole property mandate, • Sufficient diversification can be achieved through direct holdings only and would favour a sale of the indirect holdings over time.

	<ul style="list-style-type: none"> • Noted development of the London Common Investment Vehicle (CIV); however it is not clear when investment into property might become available and therefore the fund should continue to make its own arrangements for investment in property. • Limitations of TIAA Henderson's ability to secure decent direct properties noted. • Aon Hewitt recommend PAP meet with two managers to understand how the portfolio could evolve from working with a single 'boutique' property manager (to be arranged) • Officers to continue dialogue with Liverpool County Council, who has an in-house property manager. • There was a discussion on whether residential property could be an opportunity for the fund, with the possibility of investing locally. However it was recognised that there are significant refurbishment costs with moderate returns. Also, investing locally could result in conflicts of interest. • It was requested that PAP papers include a breakdown of commercial properties • Duncan and Emily will embark on a fact-finding mission for property investors and report back by next PAP
7	<p>Creation of Local Pension Board</p> <ul style="list-style-type: none"> • Regulations still at draft stage • Report to be tabled at next PAP meeting • Government request and regulation alongside the Pensions Regulator, all LGPS has to comply • To be in place by April 2015 • Draft report done – CO will circulate to members • CO gave background to members around purpose of board, scrutiny, etc • Discussion re logistics, role and implementation of the new board • CO will email paper from Pensions Regulator to members • Training is key (training budget from pension fund)
8	<p>Customer Survey</p> <ul style="list-style-type: none"> • Draft survey tabled • CO: to be restricted to scheme members only. Distinguish members/non members views when reporting results (ask for payroll number) • Update – put on website at the same time as the pension fund annual report is being published (link on website). • FH: how will admitted bodies be targeted? • Discussed with Comms team, they will advertise throughout the council • Most likely use Survey Gizmo as Survey Monkey does not pass the council's data protection policies • More work to be done with Comms to develop survey (e.g. around information pop ups to explain terminology/give links to fund documents) • Ask about interest in an annual member forum in survey. • General consensus is PAP like it, but questions need rearranging • Agreed: interim results at December's PAP meeting, then full results in March 2015 • Theoretically, the ethical investment section could change the

	<p>investment strategy, but needs to be made clear that next strategy review will not be due for another 3 years</p> <p>Letter from Member Forum</p> <ul style="list-style-type: none"> • Agreed: joint response from DW and FC. • Offer a meeting to go through some of the information – i.e. what can and cannot be done/ what information is available. • Discussion on how PAP could engage with scheme members: union members on PAP could be route for scheme members to raise issues with PAP.
9	<p>Collective Investment Vehicle Update</p> <ul style="list-style-type: none"> • Not urgent, no real commitment as it only cost a £1 • No obligation, but support it • PAP will decide after we see the benefits it brings • Discussion around fee savings vs. admin costs (especially for passive)
10	<p>Update on Investment Advice Procurement</p> <ul style="list-style-type: none"> • Hewitt will continue advising until the end of 2014 • Mercers start 01/01/15
11	<p>Standing items</p> <ul style="list-style-type: none"> • Training – CW has circulated the Knowledge & Skills Framework and various training invites to members. It is a requirement that we report on PAP member training in the pension fund annual report. Agreed: keep sending invites, members will decide what they can and cannot attend • Admitted & Scheduled Bodies – noted ARK IT Contract admission into Southwark Pension Fund • Newton Stock List at 30/06/14 – noted. Tobacco issue, but they are in Top 10 contributors. Sold Altria in the last quarter
12	<p>AOB</p> <ul style="list-style-type: none"> • Future dates/invites of PAP meetings to 2018 have been sent out • Positive feedback on improvements to meeting packs. Suggestion made to add page numbers at the header of each page