

**LONDON BOROUGH OF SOUTHWARK PENSION FUND
PENSIONS ADVISORY PANEL**

Date: 18 th September 2013	Chair Person: Richard Livingstone
Time: 2 p.m.	Notes of meeting: Caroline Watson
Venue: London Borough of Southwark 160 Tooley St, London, SE1 2TZ	
Attendees: Duncan Whitfield; Dave Howes; Eliza Mann (EM); Malcolm Laird; Chris Cooper; Chris O'Brien; Yvonne Thompson-Hoyte; David Cullinan; Emily McGuire (EMCG).	

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1	Apologies: Toby Eckersley
2	Disclosures of Interest & Dispensations None.
3	Matters Arising Minutes of previous meeting – agreed DC: Tabled a ‘Ranges of Observed Returns’ paper which compared property performance of different funds (as requested at previous meeting). 1 year performance – our fund pulled down by European exposure. Direct property remains strong performer.
4	WM Performance Report DC: strong 1 and 3 year performance. Improving over 5 years, but still legacy of earlier underperformance. Fund has been in line with or above benchmark in 8 out of last 12 quarters. Property underperformed relative to benchmark, but in line with other funds. Page 9 - overweight position in equities and underweight in property has had a positive effect. Newton – very good near term performance. Still capturing earlier under performance over 5 years. Page 20 - results of stock selection improving – less concern now.
5	Aon Hewitt Investment Update EMCG: Page 5 – very flat quarter in terms of equity returns. Gilt yields have moved up therefore positive impact on value of liabilities. Early indications from actuarial valuation show that contribution rates overall can be potentially maintained at same level. Overall not forced to take

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	<p>more risk in investment strategy to maintain same contribution rate. Will drive how investment strategy needs to evolve over time, looking at what is appropriate in the longer term but also in the current environment. Will review whether property allocation is still appropriate and drill down within equities – e.g. looking at emerging markets. Bonds – for wealth preservation. Can use different funds within existing passive managers. Also potential for use of the CIV (Collective Investment Vehicle).</p> <p>HGI – final redemption in Aberdeen fund completed in July. Impact will be reflected in Q3 (drag of 0.9% on performance – anti dilution levy causing this). Purchases of industrial estate in Swindon and Clerkenwell office have gone through. Completion of Wagamama purchase imminent. Business issues (page 10) – merger of TIAA-CREF and HGI. Intention is for HGI to have a much more global reach.</p> <p>Cash Flows</p> <p>COB: policy in place since start of pension fund bank account. Drawdown of £5m since then. Levels maintained as close to £1m as possible. This is the trigger point for getting funds back into the account. VAT from HGI – HGI collect VAT on behalf of fund which pension fund has liability to pay to HMRC. Now arranged for HGI to pay over the VAT collected quarterly (£1m pa). Impact of auto enrolment and other factors. Forecast similar to experience last year. £3m expected drawdown. Trend will continue due to changing profile of scheme and positive effect from auto enrolment (around 69% take up). But lump sums up from last year indicating ageing workforce. ML: 2014 scheme will result in more refunds as allows a 2 year resting period compared to the current 3 months. COB: position now quite stable. DW: potential for high earners to come out of scheme next year due to the increase in contribution rates under the 2014 scheme. Need projections for next 3 or 4 years re changes to scheme etc. DW: cash flow will be a measure of the effectiveness of changes to the scheme. Assumptions required for 3 years past 2013/14. EMCG: can build this into asset-liability projections.</p> <p>DW: November PAP meeting. Actuaries to attend and update on the direction of travel re investment strategy review.</p> <p>Report on Current Issues</p> <p>EMCG: Changes to LGPS arising from Public Service Pensions Act. Additional role of Pensions Board within governance structure. Nothing yet re impact on LGPS. Additional board will have a scrutiny rather than a decision making role. Prescriptive on make up with an equal split between employees and employers. Look at governance structure as a whole at that point. Changes are expected to commence in 2015, Changes to governance structure to go through different routes – Constitutional changes by May 2014 to be in line with Council procedures. DW: build on strength of PAP (purpose/constitution). Looks in principle as duplication – not relevant to LGPS. Also, skill requirement – training up membership of PAP to a new level starting now. To put together initial training programme. Training to be a standing item on future agendas.</p>

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6	<p data-bbox="331 203 687 232">Ethical Investment Policy</p> <p data-bbox="331 271 1362 499">Given the Council’s public health role, a number of concerns have been raised recently around some of the equity holdings of the pension fund and in particular holdings in tobacco and arms companies. Concerns have been raised that the policy for staff on improvement to public health is not consistent with pension fund investment holdings. There was general discussion around these issues and key points discussed are as follows:</p> <ul data-bbox="379 539 1362 981" style="list-style-type: none"> • Currently have a positive engagement policy on ethical investing (including membership of the Local Authority Pension Fund Forum) • EMCG advised that there are difficulties in setting out exclusion policies – e.g. companies not directly involved in making products but involved in an industry • Tobacco is a defensive stock and so a decision needs to be balanced against the fact that we need to protect the position of the fund • Existing responsible investment policy not out of step with other local authorities • Anything put forward as a risk on investments falls back on local taxpayers <p data-bbox="331 1016 496 1046">Next Steps:</p> <ul data-bbox="379 1086 1362 1151" style="list-style-type: none"> • Current policy to be reviewed as part of investment strategy review following the actuarial valuation.
7	<p data-bbox="331 1256 1066 1285">London Fund Merger/Collective Investment Vehicles</p> <p data-bbox="331 1323 1362 1552">EMCG: Consultation – merging schemes into one London scheme or benefit of collaboration. Talk of 5 super funds across country. Ministers to look at evidence provided. Move towards frameworks and London CIV. Looking at pooling assets but maintaining responsibility for investment strategy, contributions, etc. CC: asked about Southwark’s influence/response to consultation. Usually respond as part of SLT, NAPF etc responses as long as their views are consistent with ours.</p> <p data-bbox="331 1592 1362 1794">DH: example of accessing prime properties. Could be done through CIV. DC: disadvantages of who is in charge/runs collaborative projects. CIV model has a huge potential and could be nimble, but could over promise. Always a risk. People now looking at the positives and more group discussions amongst various Councils. RL: government attitudes to CIV – bigger fund better investment return.</p> <p data-bbox="331 1834 1362 1895">At the moment joining is optional. Flexibility is one of the key components.</p>
8	<p data-bbox="331 1928 831 1957">Admitted/Scheduled Bodies Update</p> <p data-bbox="331 1995 1362 2089">Papers were tabled for information on changes to the academies and admitted bodies’ policies. The future direction of travel will be covered by the actuaries at the next meeting.</p>

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9	AOB Newton Stock Lists – noted
10	Date of next meeting – 25th November, 2-4pm