

LONDON BOROUGH OF SOUTHWARK PENSION FUND
PENSIONS ADVISORY PANEL

Date: 21st April 2015	Chair Person: Fiona Colley
Time: 13:30pm	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; Roy Fielding; Chris O'Brien; Caroline Watson; Yvonne Thompson-Hoyte; Pauline Birbal; David Cullinan; Emily McGuire (EMCG for item 5); Jo Holden; Mike Ellsmore	

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1	Apologies: Malcolm Laird
2	Disclosures of Interest & Dispensations: None
3	Minutes of the last meeting <ul style="list-style-type: none"> Agreed
4	Matters Arising: <ul style="list-style-type: none"> Item 11 from minutes carried forward until the next meeting due to Malcolm's absence
5	Property – Future Options <ul style="list-style-type: none"> At the last PAP meeting it was agreed that the strategic weighting to property should continue to be 20%. Emily McGuire from Aon Hewitt presented a Property Portfolio Proposal providing a brief overview and recommendation of a way forward for PAPs consideration. Duncan & Councillor Colley held meetings with 'boutique managers' Invesco, Frogmore and Cording to obtain alternative viewpoints on and approaches to the management of property portfolios. The recommendation from Aon Hewitt is they believe now is a good time to raise the property weighting, add diversification and there are opportunities available over the next couple months: <ul style="list-style-type: none"> Adopt a core/specialist approach, split 70%:30% Retain Henderson for the core holding (70%) and change the benchmark to an absolute return approach. They recommend a target of 7% p.a. net of all fees. Continue to reduce the pooled fund holdings with Henderson (in particular Blackrock balanced fund). Appoint specialist managers via pooled funds to gain exposure to different areas in the UK property market to get back to the strategic weighting in property. Appoint an opportunistic property manager and private rental sector manager (each 15%) as soon as possible to gain access to these markets. These funds are mostly 'closed ended' and raise funds usually over a short timeframe which means speed of implementation is very

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	<p>important. Using the flexibility of the CIPFA guidance, specialist pooled funds can be accessed quickly. However, we must ensure we can demonstrate best value by conducting a competitive tender between the managers put forward and selecting on the basis of most advantageous terms. Not bound to OJEU process. No prescription on how to select, but must take proper advice. (e.g. Mercer, WM or internal with the right experience)</p> <ul style="list-style-type: none"> - Concerns raised re investment in private rental sector. Political issues and tensions between local authority and pension fund roles need to be explored <p>Next steps</p> <ul style="list-style-type: none"> • The proposals with Henderson would require a side letter to the IMA and would be straightforward to implement. • In order to select specialist funds Aon Hewitt recommend inviting two funds from each category to tender: Opportunistic property (Brockton Capital & Frogmore) and Private residential sector (Invesco & M&G) • Aon Hewitt propose PAP invite above managers to present in late May 2015, which will then be in a position to select and begin the process of investing by June/July 2015 (this is when some of the managers are expected to close to investors). <p>Action: Invite potential managers to present to PAP elected members as soon as possible after the 07/05/15. Tender selection process to be initiated to coincide with presentations (CW & EMCG)</p>
5	<p>Investment Update</p> <p>David Cullinan (State Street)</p> <ul style="list-style-type: none"> • Fund return just lower than benchmark in quarter to December 2014 but strong one year absolute return. • Fund overweight in equities and underweight in property but no impact in quarter. • Low and stable level of risk taken to achieve performance. • Newton solid absolute return of 15% over last 3 years but below benchmark return set for them. Reducing risk and recovering performance. Noted that they have been defensive for a long time and their active fees were questioned. • JH: not good time to review them now as they do best in a volatile world and changes likely to favour them soon. • DW: review Newton closely over next 12 months • Henderson has underperformed relative to benchmark. But this has partly arisen re the impact from pooled funds, which isn't reflected in their benchmark. • 1.8% ahead of average public sector scheme. Down to global equity strategy (compared to typical domestic bias). <p>Jo Holden (Mercer)</p> <ul style="list-style-type: none"> • First look at Mercer's investment report – Jo would like an opinion from PAP members on the layout, if they find it useful, if they would like anything added. • Explanation of ESG rating: 1 to 2 strong score (out of 4). Needs to be

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	<p>integrated into manager's strategy.</p> <ul style="list-style-type: none"> • Index linked gilts market used as proxy to value liabilities. Over 3 years the fund has outperformed liabilities. Focus should be on performance related to liabilities and not just absolute asset returns. • CC raised concerns re long term performance of Henderson. JH: look at opportunistic first. Procurement issues around Henderson mandate – would take at least 12 months to move from Henderson. Priority order re review of property investments. FC: See how change of benchmark affects their strategy. • Fund growing quarter by quarter to £1,170m as at Dec 2015. This increase was due to positive absolute performance from all funds. • Relative return to benchmark was slightly flat. • Complete stock list as at 31/12/15 – noted.
6	<p>Local Pensions Board</p> <ul style="list-style-type: none"> • The establishment of the local pension board was agreed by Council Assembly on 25th February 2015. • Introduction of Mike Ellsmore – Independent chair of LPB (subject to confirmation by a majority of the employer and scheme member representatives of the board). Mr Ellsmore is a former director of finance from London Borough of Bexley with several years of experience in LGPS management and decision making. Attending the PAP meeting as an observer. • One of Mr Ellsmore's first tasks will be to work with officers to formulate a training plan for the board. • The LPB role is to assist and support Duncan/PAP in securing compliance with the regulations, any other legislation relating to the governance and administration of the scheme and requirement imposed by the Pension Regulator in relation to the scheme. • Introduction of LPB agenda. Date and time of first meeting to be confirmed. • Nominated membership: details were provided and noted. Re the substitute employer representative that hasn't yet been appointed, it was agreed that this will be done as soon as possible. • The LPB is independent of PAP and only the chair will be attending selective meetings and report back to board. • TOR – being reviewed by the Constitution team • Opinion on Item 46, page 84 of pack – LPB needs to be an open meeting, while PAP is closed Trade unions up to date. Southwark ahead of time. <p>Action: Set meeting date for LPB. Send out member appointment letters. Need substitute for employer rep named by DW. Training to be organised (YTH)</p>
7	<p>Investment Strategy Review</p> <ul style="list-style-type: none"> • Update given on transition of corporate bonds and passive equities to DGF and ARB funds • Transition to start in 2-3 weeks and to complete as soon as possible • Recommendation to move all fixed interest gilts to interest linked gilts agreed • Mercer endorsed Aon Hewitt's previous advice on this

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	<p>Action: Implementation of Investment Strategy. Move from Fixed Income to Index-Linked Gilts to be actioned (CW)</p>
8	<p>Customer Survey</p> <ul style="list-style-type: none"> • Overall there has been a low response. Comparing the membership (approx. 21,000) and the amount of respondents (approx. 200), response is approximately 1%. • The results indicate they are reasonably satisfied with the service, but there is a lack of awareness of the governance arrangements of the pension scheme. • More encouragement/incentives and explanation of the importance is needed for members to participate in the survey. • This is not a one off project, the intention is to keep it going and develop it. <p>Action: Investigate and try different methods of advertising. Find out how many responses were abandoned partway through completion. (PB)</p>
9	<p>Standing items</p> <p>CIV</p> <ul style="list-style-type: none"> • FC: attended the joint committee meetings on Southwark's behalf. It's been and still is a slow process. • An administrative company has been appointed, but yet to appoint directors. • Awaiting FCA approval before becoming established and it is expected that this will be completed by the summer. • Managers involved will be passive managers including Legal & General and Blackrock. • They will then come back to funds with offer on funds available in first tranche and related fees. Will then compare fees paying with those being offered by CIV. <p>Training schedule</p> <ul style="list-style-type: none"> • noted <p>Pension Service Team update</p> <ul style="list-style-type: none"> • CC: requested information on potential impact on fund of pensions flexibility and also an equalities breakdown as risk it could impact on poorer scheme members. • Trade unions could run training explaining merits of being in the scheme. Need requested information to target correct groups of employees. • Information to be circulated prior to next PAP meeting. <p>Action: Ask ML for number of enquiries and 'take ups' regarding flexible benefits - analysed by pay grades and ethnicity. (CW)</p>

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10	<p>AOB</p> <ul style="list-style-type: none"> • Southwark Council Pension Fund is a member of LAPFF (Local Authority Pension Fund Forum). The Forum provides an opportunity for the UK's local authority pension funds to discuss investment issues and shareholder engagement.. • LAPFF to attend next PAP meeting to facilitate a debate on divestment vs. engagement. • PAP members to receive Mercer paper on climate change and issues of stranded assets once it is published. <p>Action: Keith Bray from LAPFF will be invited to attend the next PAP meeting (PB)</p>