

# Merton Council

## Pension Fund Investment Advisory Panel Agenda

### Membership

#### Councillors:

Cllr Imran Uddin (Chair);  
Cllr Adam Bush (Vice Chair);  
Cllr Mark Allison

#### Officers:

Tina Pickard (Pensioner Rep)  
Caroline Holland (LBM)  
Paul Dale (LBM)  
Gwyn Isaac (GMB Union Rep)

**Date:** Tuesday 8 March 2016

**Time:** 7.15 pm

**Venue:** Merton Civic Centre

This is a public meeting and attendance by the public is encouraged and welcomed.  
For more information about the agenda please contact  
[Merton.PensionFund@merton.gov.uk](mailto:Merton.PensionFund@merton.gov.uk) or telephone [020 8545 3458](tel:02085453458).

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# **Pension Fund Investment Advisory Panel Agenda**

## **8 March 2016**

- |    |   |         |
|----|---|---------|
| 1  | Apologies for absence   |         |
| 2  | Declarations of pecuniary interest  |         |
| 3  | Minutes of the previous meeting   | 1 - 4   |
| 4  | Quarterly Performance Review  | 5 - 14  |
| 5  | Draft PFAP Work Programme 2016/17   | 15 - 22 |
| 6  | Draft Pension Fund Business Plan 2016/17                                    | 23 - 28 |
| 7  | Presentation by Aberdeen Asset Management                                   | 29 - 32 |
| 8  | Update on London CIV  | 33 - 36 |
| 9  | LGPS: Investment Reform Criteria and Guidance (DCLG, Nov 2015) Consultation | 37 - 40 |
| 10 | Future meeting dates  |         |
|    | 29 <sup>th</sup> June 2016  |         |
|    | 28 <sup>th</sup> September 2016   |         |
|    | 1 <sup>st</sup> December 2016   |         |
|    | 8 <sup>th</sup> March 2017  |         |

### **Note on declarations of interest**

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

**Attendance:**

Cllr Imran Uddin (Chair)  
Cllr Adam Bush (Vice Chair)  
Cllr Mark Allison  
Paul Dale (Assistant Director of Resources LBM)  
Paul Audu (Head of Treasury and Pensions)

**Additional Attendees:** None

**1.0 MEETING (Part 1)**

1.1 Introductions made by Chair

1.2 Apologies for lateness: None

1.3 Apologies for absence: Caroline Holland (CS Director LBM), Cllr Mark Allison

1.4 Members Declaration of Interest - None

**2.0 PRESENTATION OF MINUTES OF LAST MEETING (15.9.15)**

Minutes agreed.

**3.0 QUARTERLY PERFORMANCE REVIEW (1 July 2015 – 30 September 2015)**

3.1 PA presented the report and provided information on portfolio actions and results for the quarter. Total fund was valued at £495.3million, down by £25.8m or 4.9% over the period. Global markets were volatile during the quarter however, the outlook for UK economy remained positive.

3.2 Total fund return was -4.0% compared to the benchmark return of -3.3%. The 0.7% underperformance was attributed to stock selection (0.4%) and asset allocation (0.3%), the former due to fund manager decisions and the latter due to strategic decisions made by the Fund. Year-to-date, the Fund underperformed the benchmark by 1.1 (0.9% v 2.0%). Over 3 years, the Fund gained 7.2% compared to the benchmark return of 8.1%.

3.2 In terms of allocation, the Fund was overweight benchmark on Equity (73.2% v 70.0%), underweight Bond (23.6% v 25.0%) and underweight Property (3.2% v 5.0%). The market value chart showed that the Fund had grown significantly (by £239m) in the last 7 years.

3.3 PA commented on the Fund's diversified portfolio of investments and provided high-level analysis of sectors and markets. Broadly, the Fund performed better in overseas equity markets than domestic UK equity market albeit the Fund and the benchmark produced negative return across global markets for the period. Total Equity returns were -6.6% and -6.2% for the Fund and benchmark respectively. Total Bond return for the Fund was 4.2% compared to the benchmark return of 4.3%. The Fund made 3.3% on property over the quarter compared to the benchmark return of 3.0%.

- 3.4 At the individual fund manager level, UBS (passive global equity) tracked the benchmark with identical return of -5.6%. The manager underperformed the benchmark in the active global equity portfolio (-7.4% v -7.0%). The Property portfolio run by UBS was 0.4% better than the benchmark (3.4% v 3.0%). Aberdeen Asset Management (global equity) underperformed the benchmark by 1.5% (-8.5% v -7.0%) and the manager's return of 3.3% on global bonds was identical to the benchmark. Blackrock (Property) underperformed the benchmark by 0.4% (2.6% v 3.0%). PA discussed the impact of asset allocation and stock selection decisions on overall performance.
- 3.5 There was discussion on equity mandates. The Committee considered whether to allow managers some flexibility and how that might be reflected in the SIP. PD said that officers would consult with fund managers and bring back some ideas. It would be prudent to rely on investment managers and not to constrain them.
- 3.6 PA referred to managers' performance being similar across the Fund's equity mandates and the need to consider reducing the current restrictions on asset allocations at the next investment strategy review.

#### **4.0 RESPONSIBLE INVESTING**

- 4.1 PD referred to the executive summary of EVD (section 2) report and Counsel's opinion given to members in 2013 and advice on social, ethical and environmental issues.
- 4.2 The Committee noted the report. ESG matters will be discussed and considered in future.

#### **5.0 ANNUAL REPORT AND ACCOUNTS – 2014/15**

- 5.1 PD informed the Committee that audit of the Pension Fund Annual Report and Accounts 2014/15 by Ernst & Young was complete. There were no qualifications or recommendations in the auditor's report. The Committee noted the report and agreed that this should be reported to the General Purpose Committee.

#### **6.0 UPDATE ON INVESTMENT ADVISER PROCUREMENT**

- 6.1 PA referred to the report and procurement process for the appointment of the investment adviser. Final interviews were held in October, following the evaluation of bidders' submission by officers. Bidders had been informed about the outcome of the interviews and officers anticipated that the Council would enter into contract in the near future giving regard to OJEU cooling period. Next steps – review of investment custody arrangement is ongoing. PA advised the Committee that officers would aim to rationalise the custody arrangement ahead of any decision on asset allocation and procurement of fund managers.
- 6.2 **Action:** PD to confirm if £100k is an internal cost for the procurement.

6.3 Discussion took place on having possible meeting with advisers to clarify views and involve members in discussions, and whether to revisit previous proposals. The Committee should be involved in the discussions and detail to move forward and design new mandates.

6.4 **Action:** PD to inform members once meeting date(s) with the advisers are agreed with a revised timeline for circulation.

## **7.0 UPDATE ON LONDON CIV**

7.1 PD reported that the CIV was now operational and that the Council took up its allotted 150,000 shares in London LGPS CIV Ltd at a cost of £150,000. Two sub funds launched in December 2015, with assets transferring from some London boroughs to the CIV.

7.2 PD advised that further discussion on what to put through the CIV would take place. There is no requirement to tender. The CIV's sub funds will increase through mini competitions.

7.3 There was some discussion on the timing of the investment strategy review and manager procurement and the Committee believed that it was advantageous that the CIV was up and running before the proposed review.

## **8.0 PFAC WORK PROGRAM 2016/17**

8.1 PA reported that officers were working on a draft programme to be brought to the next meeting of this Committee on 8<sup>th</sup> March 2016, setting out a full year's work programme designed around the key areas of the Committee's responsibility. The aim of the Work Programme is to ensure all areas are covered and the Committee has visibility across the Fund arrangements to ensure proper governance and performance evaluation.

8.2 Discussion took place on governance and various key areas/issues and requirements to be fulfilled across investment and administration functions. Also, there was some discussion on communication /engagement with the scheme members via various media; intranet, newsletters, etc. as Chair keen for members to be made aware of current processes. PA said the intranet was an effective way to engage scheme members. He also suggested the use of self-service features on website for accessing reports and other information.

## **9.0 ANY OTHER BUSINESS**

### **9.1 Local Pension Board**

Discussion took place on possible shared joint Board or having one committee/pool of 5 people in collaboration with other London boroughs.

**9.3 Action:** PD and PA to discuss possible solution for Pension Board and consult with CH about fall back position to ensure meetings set up in order to be compliant with the regulation.

**Date of Next Meeting:**  
8<sup>th</sup> March 2016

# London Borough of Merton Pension Fund **Agenda Item 4**

## **Advisory Committee Date: 8<sup>th</sup> March 2016**

**Subject: Performance of the Pension Fund for the Quarter Ending December 2015**

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

Contact officer: Paul Dale

This is a Public Document

### **RECOMMENDATION**

Members are asked to note the content of this report, in particular, the market values and performance of the total fund and component portfolios for the quarter ending 31 December 2015, attribution of the results and the market environment during the period.

Members are also asked to note that Aberdeen Asset Management has been invited to attend this meeting to give a presentation to the Committee on their portfolio activity and results. The presentation material is provided under a separate covering report to this meeting and Members will be able to probe the fund manager at the meeting.

### **1.0 PURPOSE OF REPORT**

- 1.1 To report the investment performance at total fund level, and of the individual fund managers, for the quarter to 31 December 2015.
- 1.2 The purpose of this report is to give the Committee a basis on which to review the performance of the Fund as at 31 December 2015 and provide information to support future actions including periodic rebalancing and review of investment strategy and investment management arrangement.

### **2.0 PERFORMANCE REPORT**

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by WM Performance Services provides useful analysis and insights of the Pension Fund activity and results for the quarter to 31 December 2015.
- 2.2 The report highlights the performance of the total Fund by asset class against the customised benchmark. It also includes comprehensive analysis of the performance of each manager against their specific benchmark and a comparison of performance over longer periods.

2.3 At 31 December 2015 the total Fund was valued at £517.0m (includes internal cash deposits) up by £21.7m (or 4.4%) since 30 September 2015.

### 3.0 Market Background/Outlook

3.1 The final quarter of the calendar year was characterised by volatility exacerbated by crashing commodity prices, falling Chinese market and historically low oil prices. It brought with it much anticipated divergence in monetary policies pursued by the central banks of the major developed markets. In December 2015, the Federal Reserve (Fed) raised interest rates for the first time in almost nine years, increasing the target range for its federal funds rate by 0.25%, to 0.25-0.50%. The move, largely priced in by markets, was taken as a sign of the Fed's confidence in the health of the US economy. Meanwhile, other central banks including the European Central Bank, the Bank of Japan and the Swiss National Bank maintained quantitative easing.

3.2 Concerns about the Chinese economy were more subdued over the three months to the end of December compared with the previous quarter, when the actions of the People's Bank of China to further liberalise its currency and the sharp price movements in the domestic A-share market weighed heavily on sentiment.

3.3 Emerging market economies continued to face challenging headwinds, particularly Brazil and Russia, which endured pressure from commodity price weakness.

### 4.0 PERFORMANCE OF THE FUND

4.1 The table below shows the Fund's strategic asset allocation as at 31 December 2015 against the asset allocation of the benchmark. The Fund was overweight Equity and Bonds and underweight Property compared to the benchmark.

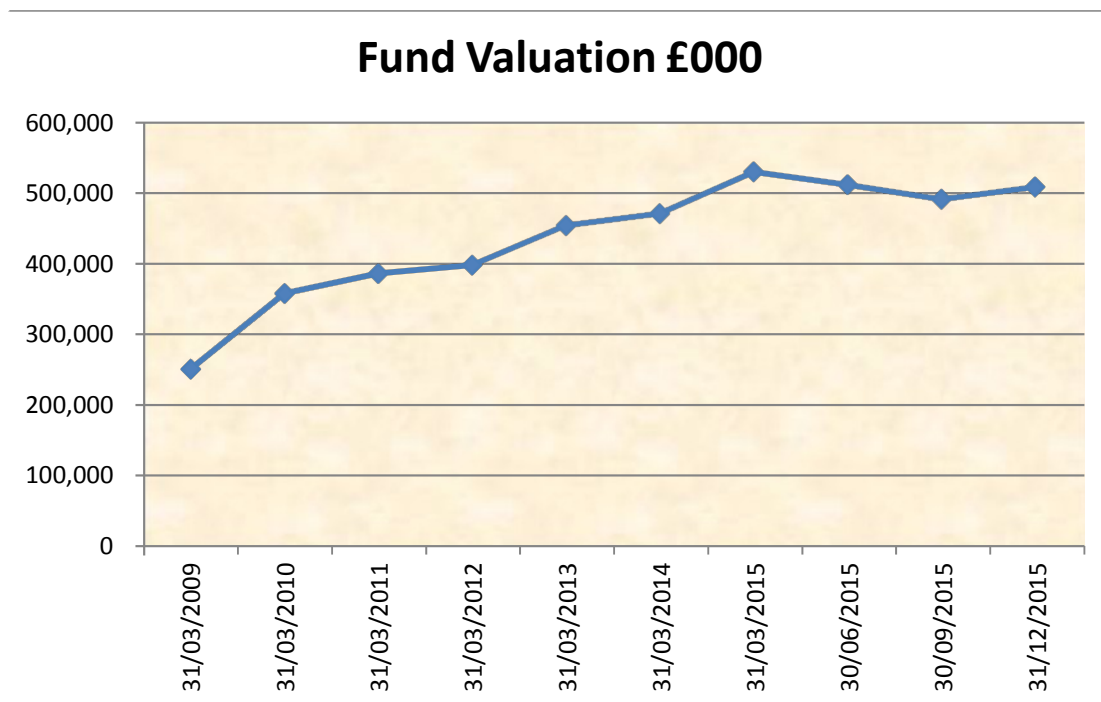
At 31/12/2015	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
<b>Fund Asset Allocation</b>	72.4	24.2	0.2	3.3	100.0
<b>Fund Benchmark</b>	71.3	23.8	N/A	5.0	100.0
<b>Difference overweight / (underweight)</b>	1.1	0.4	N/A	(1.7)	

4.2 The Fund underperformed the benchmark by 0.2% for the quarter ending 31 December 2015. It gained 3.5% compared to the benchmark return of 3.7% for the period. Year-to-date, the Fund underperformed the benchmark by 0.9%. The return for the year was 1.5% and 2.4% for the Fund and benchmark respectively.

4.3 The 0.2% underperformance was wholly due to stock selection decisions in the equities portfolio managed by Aberdeen Asset Management. The manager's results are discussed in more detail below in paragraph 5.6.

4.4 The graph below illustrates the Fund's market value trend between 31 March 2009 and 31 December 2015. It shows that the market value of the Fund has appreciated by £256m or 102.2% over the 7¾ yr. period.





4.5 The table below shows the market value of each Portfolio at the start and end of the period. The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of investments.

<i>Fund</i>	<b>Market Value 30/09/15 £000</b>	<b>Capital Gain/loss £000</b>	<b>Income £000</b>	<b>Market Value 31/12/15 £000</b>	<b>% of Total Fund</b>
<b>UBS Passive Equity</b>	206,405	12,294	502	219,227	43
<b>Aberdeen Fixed Income</b>	124,352	-2,538	700	122,437	24
<b>Aberdeen Active Equity</b>	91,761	3,527	332	95,614	19
<b>UBS Active Equity</b>	50,856	1,789	191	52,892	10
<b>UBS Property</b>	10,408	217	99	10,620	2
<b>BlackRock Property</b>	6,512	108	26	6,662	1
<b>Total External Fund</b>	<b>490,294</b>	<b>15,397</b>	<b>1,851</b>	<b>507,453</b>	<b>100</b>
<b>Internal Cash from Contributions</b>	5,000			9,580	
<b>Total</b>	<b>495,294</b>			<b>517,033</b>	

4.6 The Fund's assets are invested in various sectors and markets globally. During the quarter to December 2015, equities (in contrast to the previous quarter) made positive gains. On aggregate, fixed income investments yielded negative returns.

4.7 The following table provides detailed analysis of the return on the Fund's investment for the period relative to the benchmark.

Sector	Market Value	Market Value	Fund Return	Benchmark
	Sept 2015 £000	Dec 2015 £000	Dec 2015 %	Dec 2015 %
<b>UK Equities</b>	210,133	218,026	3.6	4.0
<b>Overseas Equities</b>	138,171	149,150	8.2	8.2
• <i>North America</i>	49,221	52,395	8.8	9.0
• <i>Continental Europe</i>	38,529	40,944	6.8	6.3
• <i>Total Far East</i>	36,916	40,755	10.2	11.0
• <i>Other Intl Equities</i>	13,505	15,055	4.8	3.3
<b>UK Bonds</b>	31,325	30,640	-1.3	-1.5
<b>Overseas Bonds</b>	31,137	31,624	2.1	1.8
<b>UK Index-Linked</b>	61,856	60,163	-3.3	-3.3
<b>Cash Alternatives</b>	1,347	1,157	-1.1	N/A
<b>Property</b>	16,326	16,693	2.9	2.8
<b>Total</b>	<b>490,294</b>	<b>507,453</b>	<b>100</b>	<b>100</b>

## 5.0 FUND MANAGER PERFORMANCE

### UBS

5.1 UBS manages three portfolios for LB Merton Pension Fund.

#### (1) UBS Active Global Equity

5.2 The market value of the active equity portfolio managed by UBS was £52.9m (Sept 2015 £50.9m). The portfolio return was 3.9% for the period, marginally ahead of the benchmark return of 3.8%.

The table below shows the movement during the period within the portfolio.

UBS Active Equity	30/09/2015		Purchases £000	Sales £000	Gain/Loss £000	Income £000	31/12/2015	
	£000	%					£000	%
<b>Total Equities</b>	50,517	99	1,543	1,515	1,789	248	52,334	99
<b>Cash &amp; Cash Alternatives</b>	339	1	1,785	1,565	(1)	0	558	1
<b>Total</b>	<b>50,856</b>	<b>100</b>	<b>3,328</b>	<b>3,081</b>	<b>1,789</b>	<b>191</b>	<b>52,892</b>	<b>100</b>

The manager's mandate is summarised below:

- For the portion of the Active Portfolio invested in UK Equities, the manager shall seek to outperform the benchmark by 1% p.a.
- For the portion of the Active Portfolio invested in Emerging Markets, the manager shall seek to outperform the benchmark by 2.0% p.a.

### Performance of the UBS Active Equity over various time periods

<b>Period</b>	<b>Manager</b>	<b>Benchmark</b>	<b>Variance</b>	<b>Comment</b>
	<b>%</b>	<b>%</b>	<b>%</b>	
<b>Last 3 months</b>	3.9	3.8	0.1	outperformed
<b>Last 12 months</b>	0.2	-0.5	0.7	outperformed
<b>Last 3 years</b>	6.3	6.6	-0.3	underperformed
<b>Last 5 years</b>	4.7	5.0	-0.3	underperformed

### (2) UBS Global Equity (Passive)

5.3 The passive equity portfolio was valued at £219.2m (£206.4m Sept 2015). During the quarter the manager's performance of 6.2% was identical to the benchmark.

The table below shows the movement of assets during the quarter.

<b>UBS Passive</b>	<b>30/09/2015</b>		<b>Purchases</b>	<b>Sales</b>	<b>Gain/ Loss</b>	<b>Income</b>	<b>31/12/2015</b>	
	<b>£000</b>	<b>%</b>					<b>£000</b>	<b>£000</b>
<b>UK Equities</b>	114,377	55	3,096	1,557	4,060	529	119,977	55
<b>North America</b>	43,487	21	0	1,000	3,930	0	46,417	21
<b>Continental Europe</b>	24,555	12	0	0	1,539	0	26,093	12
<b>Japan</b>	12,481	6	0	0	1,559	0	14,038	6
<b>Total Pacific (ex Japan)</b>	11,678	6	0	0	1,210	0	12,888	6
<b>Cash &amp; Alternatives</b>	-173	0	3,999	4,011	-1	1	-186	0
<b>Total</b>	<b>206,405</b>	<b>100</b>	<b>7,096</b>	<b>6,567</b>	<b>12,294</b>	<b>502</b>	<b>219,227</b>	<b>100</b>

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

<b>Period</b>	<b>Manager</b>	<b>Benchmark</b>	<b>Variance</b>	<b>Comment</b>
	<b>%</b>	<b>%</b>	<b>%</b>	
Last 3 months	6.2	6.2	0	In line
Last 12 months	3.3	3.3	0	In line
Last 3 years	10.0	9.9	0.1	outperformed
Last 5 years	7.5	7.5	0	In line

### (3) UBS Property Fund

- 5.4 The market value of the property portfolio managed by UBS was £10.6m (£10.4m in Sept 2015). The portfolio return was 3.1% during the quarter, compared to the benchmark return of 2.8%.

The table below shows the movement during the period within the portfolio.

<i>UBS Triton (Property)</i>	30/09/2015		Purchases	Sales	Gain/Loss	Income	31/12/2015	
	£000	%	£000	£000	£000	£000	£000	%
<b>Property</b>	9,813	94	0	0	217	99	10,031	94
<b>Cash &amp; Cash Alternatives</b>	595	6	79	84	0	0	589	6
<b>Total</b>	<b>10,408</b>	<b>100</b>	<b>79</b>	<b>84</b>	<b>217</b>	<b>99</b>	<b>10,620</b>	<b>100</b>

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
<b>Last 3 months</b>	3.1	2.8	0.2	outperformed
<b>Last 12 months</b>	13.7	12.5	1.1	outperformed
<b>Last 3 years</b>	12.8	12.9	-0.01	underperformed
<b>Last 5 years</b>	7.5	9.0	-1.3	underperformed

### Aberdeen Asset Management

- 5.5 Aberdeen manages two portfolios for the LB Pension Fund. The manager has been invited to attend this meeting to present to Members.

#### (1) Aberdeen Active Global Equity

- 5.6 The market value of the active equity portfolio managed by Aberdeen was £95.6m (Sept 2015 £91.8m). The portfolio gained 4.2% during the quarter, significantly underperforming the benchmark of 5.5%. The underperformance was a drag on the total Fund result.

The table below shows the movement during the period within the portfolio.

<i>Aberdeen Active Equity</i>	30/09/2015		Purchases	Sales	Gain/ Loss	Income	31/12/2015	
	£000	%	£000	£000	£000	£000	£000	%
<b>UK Equities</b>	50,492	55	752	855	874	270	51,264	54
<b>North America</b>	5,734	6	200	350	394	2	5,978	6
<b>Continental Europe</b>	13,974	15	695	851	1,033	35	14,851	16
<b>Japan</b>	7,284	8	8,145	8,095	725	27	8,059	8
<b>Total Pacific (ex Japan)</b>	5,473	6	100	0	197	29	5,770	6

<b>Other Intl Equities</b>	8,251	9	950	0	304	43	9,505	10
<b>Cash &amp; Alternatives</b>	552	1	20,147	20,512	-1	1	186	0
<b>Total</b>	<b>91,761</b>	<b>100</b>	<b>30,989</b>	<b>30,663</b>	<b>3,527</b>	<b>332</b>	<b>95,614</b>	<b>100</b>

5.7 Although this portfolio is an active mandate 34% is held in pooled funds. The Manager is required to outperform the benchmark by 1.25% p.a over rolling 3yr periods.

This table shows the performance of the portfolio

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	4.2	5.5	-1.2	under Performed
Last 12 months	-1.5	1.8	-3.3	under Performed
Last 3 years	5.4	7.4	-1.9	under Performed
Last 5 years	5.4	5.3	0.2	outperformed

## (2) Aberdeen (Bonds)

5.8 The market value of the bonds portfolio was £122.4m (Sept 2015 £124.4m). The return on the portfolio was -1.5% for the period marginally better than the -1.6% achieved by the benchmark.

The table below shows the movement during the period within the portfolio.

Aberdeen (Bonds)	30/09/2015		Purchases £000	Sales £000	Gain/ Loss £000	Income £000	31/12/2015	
	£000	%					£000	%
UK Bonds	31,325	25	919	502	-1,102	689	30,640	25
Overseas Bonds	31,137	25	0	151	638	16	31,624	26
UK Index Linked	61,856	50	381	0	-2,074	33	60,163	49
Cash & Alternatives	34	0	1,276	1,300	0	0	9	0
<b>Total</b>	<b>124,352</b>	<b>100</b>	<b>2,576</b>	<b>1,952</b>	<b>-2,538</b>	<b>700</b>	<b>122,437</b>	<b>100</b>

The manager is required to outperform its benchmark by 0.60% p.a. over a rolling three year period.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance	Comment
Last 3 months	-1.5	-1.6	0.1	outperformed
Last 12 months	0.1	0	0	In line
Last 3 years	4.9	5.1	-0.2	underperformed
Last 5 Years	6.6	7.0	-0.4	underperformed

## BlackRock (Property)

- 5.10 The market value of the property portfolio managed by Blackrock was £6.7m (Sept 2015 £6.5m). The return on the portfolio was 2.1% compared to benchmark return of 2.8%.

The following table below shows the movement in the portfolio during the period.

<b>Blackrock</b>	<b>30/09/2015</b>		<b>Purchases</b>	<b>Sales</b>	<b>Gain/Loss</b>	<b>Income</b>	<b>31/12/2015</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
<b>Property</b>	6,512	100	42	0	108	42	6,662	100
<b>Cash &amp; Cash Alternatives</b>	0	0	42	42	0	0	0	0
<b>Total</b>	<b>6,512</b>	<b>100</b>	<b>84</b>	<b>42</b>	<b>108</b>	<b>26</b>	<b>6,662</b>	<b>100</b>

The manager is required to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK, principally, but not exclusively, in the retail, office and industrial/warehouse sectors.

This table shows the performance of the portfolio.

<b>Period</b>	<b>Manager %</b>	<b>Benchmark %</b>	<b>Variance %</b>	<b>Comment</b>
<b>Last 3 months</b>	2.1	2.8	-0.8	underperformed
<b>Last 12 months</b>	9.4	12.5	-2.7	underperformed

## 6. OTHER ISSUES AFFECTING THE FUND

- 6.1 Review of the pension fund investment strategy and investment management arrangements is proposed. A draft Pension Fund Business Plan and draft PFAC Work Programme are the subjects of separate reports to this meeting.

## 7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 All relevant implications are included in the report.

## 8. LEGAL AND STATUTORY IMPLICATIONS

- 8.1 All relevant implications are included in the report.

## 9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 9.1 N/A

**10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

10.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

**11. BACKGROUND PAPERS**

11.1 StateStreet Analytics performance report and individual Fund Managers investment reports.

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## **Committee: Pension Fund Advisory Committee**

**Date: 8 March 2016**

Agenda item: 4

Wards: All

**Subject: DRAFT PENSION FUND ADVISORY COMMITTEE WORK  
PROGRAMME 2016/17**

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

This document is a public document

### **Recommendations:**

- a) To consider the content of this report and agree the appended draft Work Programme for 2016/17, subject to amendments requested by the Committee.
  - b) To read this report in conjunction with the Draft Pension Fund Business Plan 2016/17.
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### **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 The Pension Fund Advisory Committee (PFAC) is responsible for the administration and investment arrangements for the Merton Pension Fund. The Committee meets four times a year to review, discuss and decide on matters relating to the management of the Fund.
- 1.2 At its meeting held on 3 December 2015, the Committee noted officers' proposal to submit a draft Work Programme for the PFAC for 2016/17 for consideration and approval at this meeting.
- 1.3 The draft Work Programme focuses on the key tasks implicit in the Committee's stewardship of the Pension Fund for the coming year.

### **2. DRAFT WORK PROGRAMME**

- 2.1 The draft Work Programme is appended to this report. It is designed around the following key areas:
  - A. Governance
  - B. Administration
  - C. Investment
  - D. Finance

- E. Training; and
- F. Pension Board

- 2.2 The draft Work Programme will form the basis of the Committee's agendas for 2016/17 and provide the framework to monitor its own effectiveness.
- 2.3 The draft Work Programme is an Action Plan highlighting the suggested key priorities for PFAC in 2016/17. Members are asked to read this report and the draft Work Programme in conjunction with the Pension Fund Business Plan 2016/17, which is the subject of a separate report to this meeting.

### **3. CONSULTATION UNDERTAKEN OR PROPOSED**

- 3.1 N/A

### **4. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 4.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.

4.2

### **5. LEGAL AND STATUTORY IMPLICATIONS**

5.1

### **6. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 6.1 N/A

### **7. CRIME AND DISORDER IMPLICATIONS**

- 7.1 N/A

### **8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 8.1 N/A

### **9. APPENDICES**

- Draft PFAC Work Programme 2016/17

## **10. BACKGROUND PAPERS**

- Draft Pension Fund Business Plan 2016/17 (Report of the Director of Corporate Services to PFAC on 8 March 2016)
- PFAC Work Programme (Report of the Director of Corporate Services to PFAC on 3 December 2015)

**APPENDIX 1: DRAFT PENSION FUND ADVISORY COMMITTEE WORK PROGRAMME 2016/17**

<b>SUBJECT</b>	<b>REPORT OF</b>	<b>DECISION REQUESTED</b>	<b>CONTACT OFFICER(S)</b>
<b>PFAC 29 June 2016</b>			
Pension Fund Performance for Quarter 1 Jan – 31 March 2016 and 2015/16. (State Street Presentation to PFAC)	Director of Corporate Services  State Street (WM Performance Services)	To review the activity and results of the Pension Fund investment managers for the Quarter and the year to 31 March 2016.	Paul Dale Paul Audu
PFAC Member Training	Director of Corporate Services	To consider and approve the Training Plan to help PFAC members to gain the required knowledge and understanding.	Paul Dale Paul Audu
Review of the Pension Fund Investment Strategy	Director of Corporate Services	To consider and agree the scope and timing of the proposed investment strategy review and the role of the Investment Adviser.	Paul Dale Paul Audu
Merton Pension Board	Director of Corporate Services	To approve the annual budget and consider the Draft Work Programme for the Local Pension Board.	Paul Dale Paul Audu
Update on the London CIV	Director of Corporate Services	To consider the potential transition of some assets to the London CIV in the context of the proposed review of the Pension Fund investment strategy, the CIV sub-funds and regulation on collaboration/pooling.	Paul Dale Paul Audu
Draft Response to the Local Government Pension Scheme: Investment Reform Criteria and	Director of Corporate Services	To consider and approve the Authority's refined submission to DCLG Consultation prior to the	Paul Dale Paul Audu

Guidance (DCLG, November 2015)		15 July 2016 deadline.	
Pension Fund Triennial Actuarial Valuation 2016.	Director of Corporate Services	To note the arrangement for the statutory triennial actuarial valuation of the pension fund as at 31 March 2016 including the timetable, process, issues, impact on the proposed review of the investment strategy and timing of the valuation results.	Paul Dale Paul Audu
Update on Pension Administration	Director of Corporate Services	To note the update and issues with respect to LGPS Regulations, Scheme members and employers and Pension Shared Service arrangement.	Paul Dale Paul Audu
Pension Fund Risk Register	Director of Corporate Services	To review the Pension Fund Risk Register by exception.	Paul Dale Paul Audu
Pension Fund Cashflow	Director of Corporate Services	To consider the Pension Fund cashflow statement.	Paul Dale Paul Audu
<b>PFAC 28 September 2016</b>			
Pension Fund Performance for Quarter 1 Apr – 30 June 2016 (UBS Presentation to PFAC)	Director of Corporate Services UBS Asset Management	To review the activity and results of the Pension Fund investment managers for the Quarter.	Paul Dale Paul Audu
Update on the Review of the Pension Fund Investment Strategy	Director of Corporate Services	To review progress and consider issues raised by officers and Investment Adviser.	Paul Dale Paul Audu
Update on the London CIV	Director of Corporate Services	To consider the potential transition of some assets to the London CIV in the context of the review of the Pension Fund investment strategy, the CIV sub-funds and regulation on	Paul Dale Paul Audu

		collaboration/pooling.	
Merton Pension Board	Director of Corporate Services	To note/monitor the work of the Local Pension Board.	Paul Dale Paul Audu
Pension Fund Triennial Actuarial Valuation 2016.	Director of Corporate Services	To review progress (and initial results) on the Actuarial Valuation exercise.	Paul Dale Paul Audu
Review of the Statement of Investment Principles (SIP).	Director of Corporate Services	To consider and approve updated SIP in line with changes in the regulations, investment strategy review and actuarial valuation exercise.	Paul Dale Paul Audu
Draft Pension Fund Annual Report and Accounts 2015/16 and Auditor's Report under current International Auditing Standards.	Director of Corporate Services	To consider and approve the draft Pension Fund Annual Report and Accounts 2015/16.	Paul Dale Paul Audu
Pension Fund Risk Register	Director of Corporate Services	To consider the Risk Register by exception.	Paul Dale Paul Audu
Pension Fund Cashflow	Director of Corporate Services	To review the Pension Fund cashflow statement.	Paul Dale Paul Audu
<b>PFAC 1 December 2016</b>			
Pension Fund Performance for Quarter 1 Jul – 30 Sep 2016 (Aberdeen Asset Management Presentation to PFAC)	Director of Corporate Services Aberdeen Asset Management	To review the activity and results of the Pension Fund investment managers for the Quarter.	Paul Dale Paul Audu
Final Report on the Review of the Pension Fund Investment Strategy.	Investment Adviser Director of Corporate Services	To receive the Investment Adviser's Report and consider the recommendations.	Paul Dale Paul Audu
Actuary's Final Report on the Actuarial Valuation	Pension Fund Actuary Director of Corporate Services	To receive the Actuary's Report and consider the valuation results.	Paul Dale Paul Audu

Review of the Funding Strategy Statement (FSS).	Director of Corporate Services	To review and approve the updated FSS.	Paul Dale Paul Audu
Update on the London CIV	Director of Corporate Services	Update of the developments in the London CIV and changes (if any) in the LGPS investment regulations and pooling.	Paul Dale Paul Audu
Merton Pension Board	Director of Corporate Services	To note/monitor the work of the Local Pension Board.	Paul Dale Paul Audu
Pension Fund Risk Register	Director of Corporate Services	To consider the Risk Register by exception.	Paul Dale Paul Audu
Pension Fund Cashflow	Director of Corporate Services	To review the Pension Fund cashflow statement.	Paul Dale Paul Audu
<b>PFAC 8 March 2017</b>			
Pension Fund Performance for Quarter 1 Oct – 31 Dec 2016	Director of Corporate Services	To review the activity and results of the Pension Fund investment managers for the Quarter.	Paul Dale Paul Audu
Implementation of the Agreed Investment Strategy.	Director of Corporate Services	To review/monitor actions taken by officers to implement the agreed investment strategy.	Paul Dale Paul Audu
Update on the London CIV	Director of Corporate Services	To consider the potential transition of some assets to the London CIV in the context of the agreed investment strategy.	Paul Dale Paul Audu
Review of PFAC 2016/17 Work Programme and draft Work Programme for 2017/18.	Director of Corporate Services	To evaluate PFAC's activity and accomplishments and consider the draft Work Programme for the coming year.	Paul Dale Paul Audu
PFAC Member Training	Director of Corporate Services	To consider and approve the Training Plan to help PFAC members to gain the required knowledge and understanding.	Paul Dale Paul Audu
Merton Pension Board	Director of Corporate Services	To review the work of the Local Pension Board for the year and to	Paul Dale Paul Audu

		consider/approve the annual budget and draft Work Programme for the Board for 2017/18.	
Annual Review of Pension Fund Investment Arrangement (Investment Managers' Annual Presentation to PFAC).	Director of Corporate Services <ul style="list-style-type: none"> <li>• UBS Asset Management</li> <li>• Aberdeen Asset Management</li> <li>• BlackRock</li> </ul>	To conduct comprehensive evaluation of fund managers performance and assessment of portfolio results.	Paul Dale Paul Audu
Annual Review of the Pension Fund Custody Arrangement.	Director of Corporate Services	To review the activity and performance of the Pension Fund custodian.	Paul Dale Paul Audu
Pension Fund Risk Register	Director of Corporate Services	To consider the Risk Register by exception.	Paul Dale Paul Audu
Pension Fund Cashflow	Director of Corporate Services	To review the Pension Fund cashflow statement.	Paul Dale Paul Audu



## **Committee: Pension Fund Advisory Committee**

**Date: 8 March 2016**

Agenda item: 5

Wards: All

**Subject: DRAFT PENSION FUND BUSINESS PLAN 2016/17**

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

This document is a public document

### **Recommendations:**

- a) To consider and approve the draft Pension Fund Business Plan 2016/17 set out at Appendix 1 of this report; and
  - b) To read this report in conjunction with the draft PFAC Work Programme 2016/17, which is the subject of a separate report to this meeting
- 

## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 London Borough of Merton as Administering Authority of Merton Pension Fund is responsible for the administration and investment arrangements for the Pension Fund. The draft Pension Fund Business Plan 2016/17 will provide the Authority with a clear framework and mechanism to carry out its responsibilities and monitor agreed actions.
- 1.2 This report should be read in conjunction with a separate report to this meeting titled "draft Pension Fund Advisory Committee Work Programme 2016/17" as the Pension Fund Business Plan underpins the Committee's responsibilities detailed in draft PFAC Work Programme for the coming year.
- 1.3 The draft Business Plan will ensure that all key matters are covered and the required actions are carried out and monitored effectively during the year.

## **2. DRAFT PENSION FUND BUSINESS PLAN 2016/17**

- 2.1 The draft Business Plan is attached to this report at Appendix 1. It will provide the Authority the framework to carry out the required actions to comply with the LGPS regulations and best practice.

2.2 The draft Business Plan and actions will be monitored quarterly by officers and a review carried out by PFAC at the end of the year to show the extent to which the Authority and PFAC met the key priorities for the year.

2.3 Key actions in the draft Business Plan for 2016/17 include:

- To carry out statutory triennial actuarial valuation of the Pension Fund as at 31 March 2016 with a Rates and Adjustment Certificate effective from 1 April 2017.
- To review the investment strategy of the Pension Fund and investment management arrangement.
- To make a final submission to DCLG Consultation by no later than 15 July 2016.
- To work collaboratively on pooling with other London boroughs via the London CIV.
- To work collaboratively with other London boroughs on the Pension Shared Service arrangement for pension administration.
- To review and update key documents of the Pension Fund.
- To publish audited Pension Fund Annual Report and Accounts 2015/16 before the 1 December 2016 statutory deadline.
- To communicate effectively with scheme members and employers.
- To monitor the performance of the Pension Fund assets.
- To monitor the Pension Fund finances; and
- To review and maintain a Risk Register.

### **3. CONSULTATION UNDERTAKEN OR PROPOSED**

3.1 N/A

### **4. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

4.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.

4.2

### **5. LEGAL AND STATUTORY IMPLICATIONS**

5.1

### **6. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

6.1 N/A

**7. CRIME AND DISORDER IMPLICATIONS**

7.1 N/A

**8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

8.1 N/A

**9. APPENDICES**

Draft Pension Fund Business Plan 2016/17.

**10. BACKGROUND PAPERS**

None

**APPENDIX 1: DRAFT PENSION FUND BUSINESS PLAN 2016/17**

AREA OF ACTIVITY	REQUIRED ACTION	START DATE	COMPLETION DATE
<b>Investment Strategy</b>			
	Review Investment Strategy with input from the Investment Adviser.	Quarter 1 (April – June 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>• Agree asset allocation</li> </ul>	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>• Agree and adopt new benchmarks</li> </ul>	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>• Determine new investment management arrangement</li> </ul>	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>• Work with the London CIV to meet Government pooling criteria.</li> </ul>	On-going/Quarterly	On-going/Quarterly
<b>Performance Monitoring</b>			
	Monitor Pension Fund performance	On-going/Quarterly	On-going/Quarterly
	<ul style="list-style-type: none"> <li>• Assess individual fund manager’s performance</li> </ul>	Quarterly	Quarterly
	<ul style="list-style-type: none"> <li>• Fund manager presentation to PFAC</li> </ul>	Quarterly	Quarterly
	<ul style="list-style-type: none"> <li>• Annual Performance Review</li> </ul>		
<b>Actuarial Valuation</b>			
	Triennial Actuarial Valuation	Quarter 1 (April – June 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>• New rates and adjustment certificate effective 1 April 2017</li> </ul>	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>• Pension Fund actuarial position.</li> </ul>	Quarterly	Quarterly

<b>Funding Strategy Statement</b>			
	Review and update the Funding Strategy Statement and set contribution rates for employers	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
<b>Statement of Investment Principles</b>			
	Review and update the Statement of Investment Principles.	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
<b>Governance</b>			
	Review overall governance arrangement in line with Government reforms.	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>Review PFAC Annual Training programme</li> </ul>	Quarter 4 (Jan – March 2017)	Quarter 4 (Jan – March 2017)
	<ul style="list-style-type: none"> <li>Review PFAC Annual Work Programme</li> </ul>	Quarter 4 (Jan – March 2017)	Quarter 4 (Jan – March 2017)
	<ul style="list-style-type: none"> <li>Review the Pension Fund Risk Register</li> </ul>	On-going/Quarterly	On-going/Quarterly
<b>Merton Pension Board</b>			
	Review meeting arrangement for the Local Pension Board for the year.	Quarter 4 (Jan – March 2017)	Quarter 4 (Jan – March 2017)
	<ul style="list-style-type: none"> <li>Review Board Training Programme</li> </ul>	Quarter 4 (Jan – March 2017)	Quarter 4 (Jan – March 2017)
	<ul style="list-style-type: none"> <li>Review Board Annual Work Programme</li> </ul>	Quarter 4 (Jan – March 2017)	Quarter 4 (Jan – March 2017)
<b>Pension Administration</b>			
	Monitor Pension Shared Service	On-going	On-going
	<ul style="list-style-type: none"> <li>Activity and performance against agreed performance targets</li> </ul>	On-going	On-going
	<ul style="list-style-type: none"> <li>Cost (Value for money)</li> </ul>	On-going	On-going

<b>Communication</b>			
	Review communication strategy for scheme members and employers.	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>• Online</li> </ul>		
	<ul style="list-style-type: none"> <li>• Newsletter</li> </ul>		
	<ul style="list-style-type: none"> <li>• AGM/Seminar</li> </ul>		
<b>Reporting</b>			
	Report on the Pension Fund performance.	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016)
	<ul style="list-style-type: none"> <li>• Publish audited Annual Report and Accounts 2015/16</li> </ul>	Quarter 3 (Sept – Dec 2016)	Quarter 3 (Sept – Dec 2016) (Statutory deadline: 1 December 2016)
	<ul style="list-style-type: none"> <li>• Cashflow statement</li> </ul>	Quarterly	Quarterly
<b>Annual Review</b>			
	Review Pension Fund Business Plan together with:	Quarter 4 (Jan – March 2017)	Quarter 4 (Jan – March 2017)
	<ul style="list-style-type: none"> <li>• PFAC Work Programme</li> </ul>	Quarter 4 (Jan – March 2017)	Quarter 4 (Jan – March 2017)
	<ul style="list-style-type: none"> <li>• Merton Board Work Programme</li> </ul>	Quarter 4 (Jan – March 2017)	Quarter 4 (Jan – March 2017)

## **Committee: Pension Fund Advisory Committee**

**Date: 8 March 2015**

Agenda item: 6

Wards: All

### **Subject: PRESENTATION BY ABERDEEN ASSET MANAGEMENT**

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

This document is a public document

### **Recommendations:**

- a) To note the content of this report and a separate report to this meeting titled "Quarterly Performance Review (1 October 2015 – 31 December 2015)"
- b) To note that Aberdeen Asset Management has been invited to give a presentation to the Committee at this meeting and Members will be able to probe the manager's activity and performance for the quarter to 31 December 2015.

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## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 The Pension Fund Advisory Committee meets four times a year to review, discuss and decide on matters relating to the Merton Pension Fund. The Committee is required to review the performance of the Pension Fund both at total Fund and individual fund manager level. The purpose of this report is to inform Members that Aberdeen Asset Management will be attending this meeting to give a presentation to the Committee.
- 1.2 The Quarterly Performance Review (1 October 2015 to 31 December 2015) is the subject of a separate report to this meeting. The report provides commentary on fund managers' activity and results for the quarter and Members are asked to read the report in conjunction with this report.
- 1.3 The PFAC Work Programme ensures that performance of the Pension Fund and individual fund managers are reviewed throughout the year.

## **2. ABERDEEN ASSET MANAGEMENT**

- 2.1 Aberdeen Asset Management manages an active global equity portfolio and global bonds portfolio for the Merton Pension Fund. The fund manager's

activity and performance are discussed in a separate Quarterly Performance Review report to this meeting.

- 2.2 Details of the manager's representatives attending this meeting are provided in the manager's presentation material and the Agenda for this meeting.
- 2.3 The manager's presentation material is attached to this report.
- 2.4 The draft Pension Fund Business Plan and draft PFAC Work Programme 2016/17 provides the framework for the Committee to monitor the performance of the Pension Fund and fund managers effectively in the coming year. The draft Work Programme highlights the order in which managers will be invited to give presentations at PFAC meetings.

### **3. CONSULTATION UNDERTAKEN OR PROPOSED**

- 3.1 N/A

### **4. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 4.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.

### **5. REGULATORY AND SPECIFIC LEGAL MATTERS**

- 5.1 These will be contained in the report.

### **6. COMPLIANCE WITH COUNCIL POLICIES EXTRANEIOUS TO PENSION PROVISION**

- 6.1 Please see 5 above.

### **7. CRIME AND DISORDER IMPLICATIONS**

- 7.1 N/A

### **8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 8.1 N/A

### **9. APPENDICES**

Presentation material from Aberdeen Asset Management



**10. BACKGROUND PAPERS**

Quarterly Performance Review (1 October 2015 – 31 December 2015) –  
Director of Corporate Services report to PFAC on 8 March 2016.

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## **Committee: Pension Fund Advisory Committee**

**Date: 8 March 2016**

Agenda item: 7

Wards: All

### **Subject: UPDATE ON LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)**

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

This document is a public document

### **Recommendations:**

- a) Note the content of this report. The report is related to a separate report to this meeting titled "LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) Consultation". Members should also note the links between this report and separate reports on the Pension Fund Business Plan 2016/17 and this Committee's Work Programme for the coming year to this meeting.
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#### **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to update the Committee on the progress of the London CIV since the last update to the Committee on 3 December 2015, on the CIV's upcoming Fund launch, membership, current suite of fund managers and future plans to expand its offering.
- 1.2 Pooling LGPS assets is the focus of on-going and far-reaching Government reforms and the London CIV is the vehicle through which London boroughs seek to comply with regulatory requirement.

#### **2. CIV UPDATE**

- 2.1 The CIV is continuing to develop sub-funds across a range of asset classes that its active borough members need to implement their investment strategies. In the previous update to this Committee on 3 December 2015, it was reported that the CIV's first sub-fund (active global equity fund), managed by Allianz Global Investors, was seeded with £500m by three boroughs.
- 2.2 It is anticipated that a further £5.5billion will be transferred to the CIV by boroughs during 2016/17 when 8 sub-funds including active and passive equity funds are available. The CIV is aiming to attract circa £23billion of LGPS assets by 2020 and generate about £30m annual saving on fund management fees.

Accordingly, the CIV is pushing to introduce additional mandates and fund managers to broaden its appeal.

- 2.3 London Borough of Hillingdon has resolved to join the London CIV, meaning that 32 of the 33 London boroughs are now involved in developing the CIV.
- 2.4 London CIV is fully authorised as a fund manager by the Financial Conduct Authority. It will explore the potential to internalise fund management rather than the current delegated approach of using external fund managers for its pooled and segregated offering.
- 2.5 Members are asked to read L B Merton's initial response to DCLG in connection with the LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) Consultation contained in a separate report to this meeting in conjunction with this report. Also, the London CIV and the Government's on-going Consultation and pooling agenda are reflected in the draft Pension Fund Business Plan 2016/17 and draft PFAC Work Programme 2016/17 both the subjects of separate reports to this meeting.

### **3. ADVICE OF THE HEAD OF COMMERCIAL SERVICES**

3.1

### **4. LONDON BOROUGH OF MERTON'S ACTIVITY WITH LONDON CIV**

- 4.1 As part of the proposed review of the Pension Fund investment strategy in 2016/17, PFAC will consider its approach to pooling some assets via the London CIV to demonstrate commitment to collaborating with other London boroughs to comply with the Government's reform of the LGPS.

### **5. CONSULTATION UNDERTAKEN OR PROPOSED**

5.1 N/A

### **6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.

### **7. LEGAL AND STATUTORY IMPLICATIONS**

- 7.1 The Government has published its response to the consultation on Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies on 25 November 2015.

- 7.2 The Government supports the view of the majority of the respondents that asset allocation decision should remain with local administering authorities and that savings can be delivered through asset pooling, and in particular collective investment vehicles.
- 7.3 The Government is minded to pursue a localised approach to reform. Administering authorities are asked to determine the most efficient way to pool their assets and with whom to partner.
- 7.4 A consultation, “Revoking and replacing the LGPS Management and Investment of Funds Regulations 2009” has been launched on draft regulations aimed at reforming the investment regulations and introduce a power of intervention to allow the Secretary of State to intervene in an administering authority’s investment function if it failed to bring forward credible proposals for pooling. The consultation which closed on 19 February 2016, will impact how LGPS funds including London boroughs’ manage and invest their assets and their relationship with investment pools.

## **8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1 N/A

## **9. CRIME AND DISORDER IMPLICATIONS**

- 9.1 N/A

## **10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 10.1 The use of the CIV would enable a quicker, simpler process, but any delays in their ability to take investments could impinge on our ability to have the new allocations and fund managers in place by the end of the financial year.

## **11. APPENDICES**

None

## **12. BACKGROUND PAPERS**

1. London CIV Initial Response to LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) – February 2016
2. LB Merton Initial Response to LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) – February 2016
3. LGPS: Opportunities for collaboration, cost savings and efficiencies - DCLG Consultation Response – 25 November 2015
4. Update on London CIV – Report to the Pension Fund Advisory Committee on 3 December 2015

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## **Committee: Pension Fund Advisory Committee**

**Date: 8 March 2016**

Agenda item: 8

Wards: All

**Subject: LGPS: INVESTMENT REFORM CRITERIA AND GUIDANCE (DCLG, NOVEMBER 2015) CONSULTATION**

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

This document is a public document

### **Recommendations:**

- a) Note the content of this report and, in particular, the LB Merton's initial response to the LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) Consultation on 18 February appended to this report and to read this report in conjunction with the related separate report to this meeting titled "Update on London CIV".
- b) Note that officers will provide draft LB Merton's refined and completed response to be submitted by 15 July 2016, to the next meeting of this Committee to be held on 29 June 2016 for comments and approval.

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## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to update the Committee on the on-going Government reform of the Local Government Pension Scheme (LGPS) and LB Merton's initial response to the LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) Consultation and officers' arrangement to submit the Council's refined response to the DCLG by the 15 July 2016 deadline.
- 1.2 The Government's on-going reform of the LGPS will have fundamental impact on the way administering authorities manage and invest their pension fund assets.

## **2. CURRENT CONSULTATIONS**

- 2.1 The Local Government Pension Scheme: Investment Reform criteria and Guidance (DCLG, November 2015) Consultation was launched in December 2015, following the Government's response to the Local Government Pension Scheme: Opportunities for Collaboration, Cost Savings and Efficiencies

Consultation on 25 November 2015. A parallel consultation “Revoking and Replacing the LGPS Management and Investment of Funds Regulations 2009” was launched as part of the Government’s response. Together, the consultations are aimed at introducing fundamental changes to the way LGPS funds are managed and their assets invested.

- 2.2 LB Merton is a founder member of the London CIV and the Council is in dialogue with the CIV about a range of issues including its approach to managing assets and response to Government consultations.

### **3. LONDON BOROUGH OF MERTON’S RESPONSE**

- 3.1 LB Merton submitted its initial response to LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) Consultation on 18 February 2016 giving regard to the initial response submitted by the London CIV on behalf of London CIV Limited and its 31 London borough members.
- 3.2 The Council’s initial response stressed its commitment to work collaboratively with other boroughs via the CIV to pool its assets taking into account the CIV’s offering and the Council’s own investment strategy and risk appetite.
- 3.3 A refined and completed response is required to be submitted by the Council by 15 July 2016. Officers will provide draft response to the next meeting of this Committee on 29 June 2016 for comment and approval.

### **4. CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1 Officers will liaise with other boroughs via the London CIV when drafting the Council’s refined response to be submitted by 15 July 2016.

### **5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 5.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.

### **6. REGULATORY AND SPECIFIC LEGAL MATTERS**

- 6.1 The Government published its response to the consultation on Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies on 25 November 2015.
- 6.2 The Government supports the view of the majority of the respondents that asset allocation decision should remain with local administering authorities and that savings can be delivered through asset pooling, and in particular collective investment vehicles.



6.3 The Government is minded to pursue a localised approach to reform. Administering authorities are asked to determine the most efficient way to pool their assets and with whom to partner.

6.4 A consultation “ Revoking and replacing the LGPS Management and Investment of Funds Regulations 2009” has been launched on draft regulations aimed at reforming the investment regulations and introduce a power of intervention to allow the Secretary of State to intervene in an administering authority’s investment function if it failed to bring forward credible proposals for pooling. The consultation closed on 19 February 2016.

## **7. COMPLIANCE WITH COUNCIL POLICIES EXTRAENOUS TO PENSION PROVISION**

7.1 Please see 6 above.

## **8. CRIME AND DISORDER IMPLICATIONS**

8.1 N/A

## **9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

9.1 The use of the London CIV would enable the Council to demonstrate its commitment to a quicker and simpler process of pooling its Pension Fund assets with other boroughs’, but any delays in the CIV’s ability to take investments could impinge on our ability to have the new allocations and fund managers in place by the end of the financial year.

## **10. APPENDICES**

1. LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) - LB Merton’s Initial Response dated 18 February 2016.

2. LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) - London CIV’s Initial Response dated 18 February 2016.

## **11. BACKGROUND PAPERS**

1. Update on London CIV – Report to the Pension Fund Advisory Committee on 8 March 2016

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