

# Merton Council

## Pension Fund Investment Advisory Panel Agenda

### Membership

#### Councillors:

Mark Allison  
Imran Uddin (Chair)  
Adam Bush (Vice-Chair)

#### Officers:

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

**Date: Wednesday 28 September 2016**

**Time: 7.00 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**

## **28 September 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	Presentation by UBS Asset Management	15 - 18
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8	Merton Pension Board	27 - 30
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10	Replacement of the Statement of Investment Principles (SIP) with Investment Strategy Statement (ISS)	35 - 40
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12	Pension Fund Cashflow 2016/17	45 - 48
13	Future meeting dates	
	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 Stephen Crowe (stand in for Cllr Bush)  
Cllr Mark Allison (attended for two items)  
Caroline Holland (CS Director 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: Paul Dale (Assistant Director of Resources LBM), Cllr Adam Bush (Vice Chair), Tina Pickard (Unison/Pensioner Rep); Gwyn Isaac (GMB Union Rep)
- 1.4 Members Declaration of Interest – CH Director of CHAS

**2.0 PRESENTATION OF MINUTES OF LAST MEETING (3.12.15)**

- Minutes agreed.
- 2.1 PA confirmed following actions:
- 2.2 £100k was internal cost for procurement.
- 2.3 Advisers have been in discussion with Officers and have agreed outline/approved review and timetable (from June to end of April 2017). Fund Actuary to help to agree and develop outline structure of the investment strategy review process.
- 2.4 Merton Pension Board now compliant with equal representation for Scheme employers and Scheme members. The Board held its first meeting on Tuesday 5<sup>th</sup> April. Date of the next meeting yet to be agreed.

**3.0 QUARTERLY PERFORMANCE REVIEW (1 January 2016 – 31 March 2016)**

- 3.1 PA referred to report and advised that the Fund was valued at £528.8m at 31 March 2016, representing an increase of £11.7m from 31 December last year. Market value of the Fund appreciated in value by £278m or 111% in absolute terms over the 8 year period.
- 3.2 PA described market background/outlook as being volatile mainly due to instability in China's domestic stock market.
- 3.3 PA clarified internal investment funds showing market value of £9.5m in December 2015 but now showing value of £150k in March 2016 due to transfers of new money to external fund managers.
- 3.4 There was some discussion on the actuarial valuation and PA mentioned the possibility of draft actuary's report being presented at 28<sup>th</sup> September meeting at the earliest or 1<sup>st</sup> December.
- 3.5 Also, there was some discussion on the government's pooling agenda, transitional period and the extent, if any, regulations underpinning LGPS pension system would

be affected by UK vote to exit the EU. PA advised there was no short-term effect on appointment of managers.

- 3.6 Discussion took place on the Pension Fund being cashflow positive and whether there was risk of it turning negative in the near term. PA commented that going by 2013 actuarial valuation the Fund would remain cashflow positive for the foreseeable future. Looking at current asset allocation the split between equity and bonds could see long-term improvement in value of the Fund; because contributions far exceed pension benefit going out, meaning there is still significant amount of money going out to fund managers for investment.

#### **4.0 DRAFT PFAC WORK PROGRAMME 2016/17**

- 4.1 Draft accounts to go to Standards and General Purposes Committee (SGPC) on 30<sup>th</sup> June and external auditors report by early September 2016.
- 4.2 PFAC to approve audited pension fund annual report and accounts at the 6<sup>th</sup> September meeting prior to SGPC.

**Action:** PA to amend Work Programme to include 6<sup>th</sup> September.

**Action:** PA to arrange presentation/training from JLT

#### **5.0 DRAFT PENSION FUND BUSINESS PLAN 2016/17**

- 5.1 Reference made to key action plans in draft Business Plan for 2016/17:
- Refined submission to DCLG Consultation - no longer the case. London CIV and other pools to make submission but individual Fund submission optional.  
**Action:** - PA to circulate submission.
  - PA commented no new regulatory requirement for actuaries to lodge report with the Government Actuary's Department (GAD) and Scheme Advisory Board (SAB) as part of the statutory triennial actuarial valuation of the Pension Fund as at 31 March 2016 with Rates and Adjustment Certificate effective from 1 April 2017.
  - Chair suggested an update on the Pension Fund and London CIV be sent to scheme members. CH and AU raised some issues as to why not to do so at current time but could be sent in September with Annual Benefit Statements and newsletters.

#### **6.0 IMPACT ASSESSMENT OF THE VOTE FOR UK TO EXIT THE EU**

- 6.1 PA advised that the outcome of the recent EU referendum was causing significant market volatility and uncertainty. He said that longer-term impact on LB Merton Pension Fund currently difficult to predict.

**Action:** Officers to continue to monitor the situation and update PFAC on developments.

- 6.2 There was further discussion on London CIV and reference made to the CIV's 6 sub-funds which have been launched to facilitate pooling of some assets amongst London boroughs. There was also some discussion on the current government consultation – Ministers confirmed that individual Funds were no longer required to make refined submission by July deadline. Pools would be required to make submissions on Funds' behalf.
- 6.3 CH said there was need for further clarity on the pension fund actuarial valuation and the review of the Pension Fund investment strategy as there may be further issues to take into account vis-à-vis pooling.
- 6.4 PA explained the Fund actuary adopts a "smoothed" economic approach. He said different actuaries use different methodologies and financial models.

## **7.0 UPDATE ON LONDON CIV**

- 7.1 CIV continuing to develop sub-funds across a range of asset classes. It is anticipated that a further £5.5b be transferred to the CIV by boroughs during 2016/17 and the CIV had plans to create about 8 additional sub-funds over the next 9 – 12 months, including active and passive equity funds.
- 7.2 Chair mentioned that he attends CIV meetings. There was some discussion no asset classes and initiatives such as Pension Investment Platform (PIP) being proposed as possible future investment vehicle for LGPS infrastructure allocation.
- 7.3 Difficult environment due to LGPS reforms and BREXIT and how Merton should approach issues such as appointment of investment managers. PA said it would be prudent to complete the review of the investment strategy taking account of the actuarial valuation results and asset/liability modelling to enable new mandates, benchmarks to be agreed in 2016/17 prior to procuring suitable fund managers.
- 7.4 Fortuitous that review of the investment strategy and actuarial valuation are taking place at the same time and beneficial to commence fund manager procurement process at the end of the year.

**Action:** PA to arrange for JLT to attend/present at the next PFAC meeting on 28<sup>th</sup> September.

## **8.0 MERTON PENSION BOARD (Verbal update)**

- 8.1 PA advised that Merton Pension Board held its first meeting on 5<sup>th</sup> April 2016 and current Head of HR was elected Chair for the inaugural meeting. The meeting agenda included terms of reference and training with draft work programme presented and agreed by the Board.
- 8.2 IU asked PA to clarify the role and timings of Boards, and suggested meetings to take place prior to PFAC in order that outcomes can be presented to PFAC.
- 8.3 PA explained set up of Pension Board (including membership composition and terms of reference from a regulatory perspective) and for PA and CH mandated to attend. PA referred to regulations requiring the Board to assist the administering authority and its pensions committee to secure compliance with the regulations.

**Action:** Chair requested that Pension Board meeting minutes should be placed on future PFAC agenda.

## **9.0 ANY OTHER BUSINESS**

- 9.1 Chair expressed the PFAC's best wishes to Paul Dale.

### **Date of Next Meeting:**

- 6<sup>th</sup> September 2016 (Special Meeting)
- 28<sup>th</sup> September 2016
- 1<sup>st</sup> December 2016
- 8<sup>th</sup> March 2017

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## London Borough of Merton Pension Fund Advisory Committee

**Date: 28<sup>th</sup> September 2016**

Agenda item: 3

Wards: All

**Subject: Performance of the Pension Fund for the Quarter Ending June 2016**

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

Contact officer: Paul Dale

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### **RECOMMENDATION**

- (a) 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 30 June 2016, attribution of the results and the market environment during the period.
- (b) Members are asked to note that UBS Asset Management have been invited to attend this meeting to give a presentation to the Committee covering all three mandates (active global equity, passive equity and property) that they manage for the Pension Fund.

### **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 30 June 2016.
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 30 June 2016 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 to the Pension Fund activity and results for the quarter to 30 June 2016.
- 2.2 The report highlights the performance of the total Fund by asset class compared to 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 30 June 2016 the total Fund was valued at £566.9m up by £38.1m (or 7.2%) since 31 March 2016.

### 3.0 MARKET BACKGROUND/OUTLOOK

- 3.1 Volatility returned to investment markets late in the quarter when it emerged the United Kingdom had voted to leave the European Union in the Referendum on 23rd June 2016. Leading up to the vote, markets rallied on high expectation of a 'Remain' vote. Therefore, the 'Leave' result came as a shock to the markets, including the resignation of the Prime Minister and leader of the Remain campaign, David Cameron. Markets reacted negatively and Sterling suffered a significant drop in value against US dollar and Japanese Yen. However, equity markets finished the quarter strongly buoyed by good set of economic data; but government bond yields fell to record lows as markets began to price in the likelihood of further central bank action to boost economic activity.
- 3.2 Global markets continue to watch the US Fed closely. The recent dovish stance adopted by the Fed provided a welcome boost just as a number of other central banks remaining accommodative in light of weak growth.

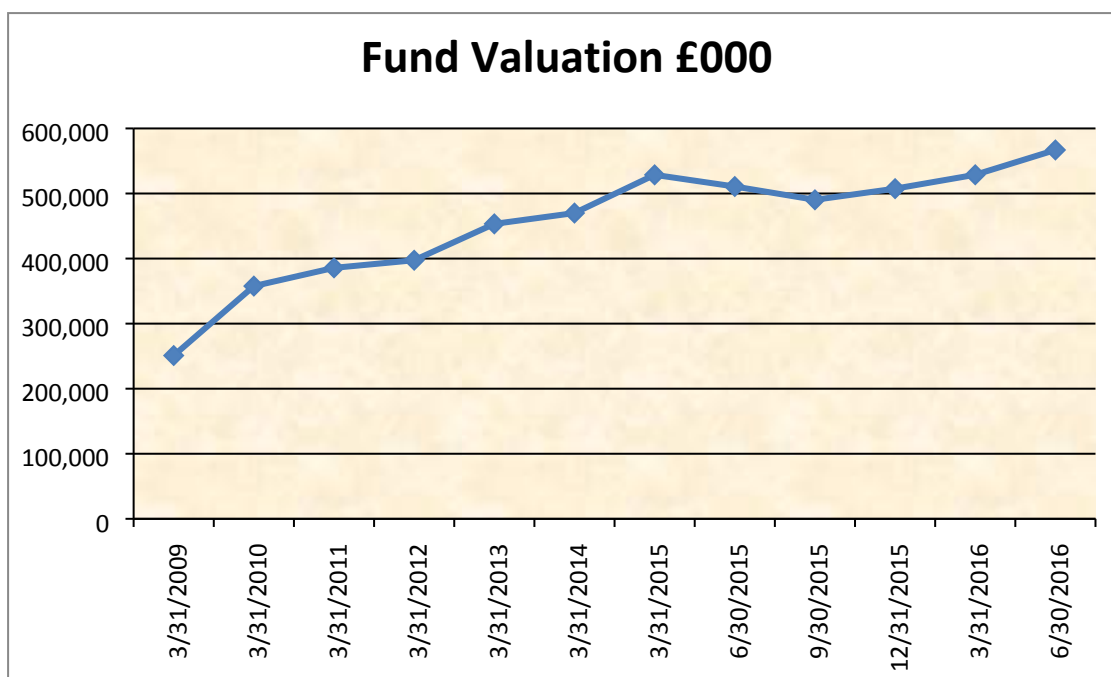
### 4.0 PERFORMANCE OF THE FUND

- 4.1 The table below shows the Fund's strategic asset allocation as at 30 June 2016 against the benchmark allocation. The Fund was overweight Equity and underweight Bonds and Property compared to the benchmark.

At 30/06/2016	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
Fund Asset Allocation	70.4	25.5	0.3	3.8	100.0
Fund Benchmark	69.4	25.9	N/A	4.7	100.0
Difference overweight / (underweight)	1.0	-0.4	N/A	-0.9	

- 4.2 The Fund outperformed the benchmark by 0.3% for the quarter ending 30 June 2016. It gained 7.2% compared to the benchmark return of 6.9% for the period. Year-to-date, the Fund outperformed the benchmark by 0.3%. The return for the year was 7.9% and 6.9% for the Fund and benchmark respectively.
- 4.3 The 0.3% outperformance was due wholly to asset allocation. The manager's results are discussed in more detail below in section 5.
- 4.4 The following graph illustrates the Fund's market value trend between 31 March 2009 and 30 June 2016. It shows that the market value of the Fund has appreciated by £316m or 126% over the 8 ¼ 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 31/03/16 £000</b>	<b>Capital Gain/loss £000</b>	<b>Income £000</b>	<b>Market Value 30/06/16 £000</b>	<b>% of Total Fund</b>
<b>UBS Passive Equity</b>	226,073	12,957	1,196	240,318	42
<b>Aberdeen Fixed Income</b>	130,945	13,968	11	144,913	26
<b>Aberdeen Active Equity</b>	97,162	6,322	934	104,412	18
<b>UBS Active Equity</b>	52,694	1,804	645	55,208	10
<b>UBS Property</b>	15,184	-21	165	15,212	3
<b>BlackRock Property</b>	6,721	54	32	6,846	1
<b>Total External Fund</b>	<b>528,779</b>	<b>35,085</b>	<b>2,982</b>	<b>566,908</b>	<b>100</b>
<b>Internal Investments</b>	150			150	
<b>Total</b>	<b>528,929</b>			<b>567,058</b>	

4.6 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
	Mar 2016 £000	June 2016 £000	June 2016 %	June 2016 %
UK Equities	221,842	236,199	5.3	4.7
Overseas Equities	153,461	162,460	8.0	8.0
• North America	53,664	57,330	10.2	10.3
• Continental Europe	41,507	43,709	4.9	4.4
• Total Far East	42,241	44,759	7.3	8.4
• Other Intl Equities	16,049	16,662	10.9	8.8
UK Bonds	32,682	35,952	9.9	10.1
Overseas Bonds	33,074	36,191	10.7	10.6
UK Index-Linked	65,173	72,769	11.1	11.1
Cash Alternatives	1,236	1,922	-0.2	
Property	21,312	21,416	1.2	0.1
<b>Total</b>	<b>528,779</b>	<b>566,908</b>	<b>7.2</b>	<b>6.9</b>

4.7 The Fund's assets are invested in various sectors and markets globally. During the quarter to June 2016, UK equities performed well which in contrast to the previous quarter made positive returns. Emerging markets again performed well.

## 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 £55.2m (£52.7m in March 2016). The portfolio return was 4.6% for the period, being below the benchmark return of 5.3%.

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

UBS Active Equity	31/03//2016		Purchases £000	Sales £000	Gain/Loss £000	Income £000	30/06/2016	
	£000	%					£000	%
<b>Total Equities</b>	52,362	99	5,014	4,357	1,804	705	54,824	99
<b>Cash &amp; Cash Alternatives</b>	332	1	5,068	5,016	0	0	384	1
<b>Total</b>	<b>52,694</b>	<b>100</b>	<b>10,082</b>	<b>9,373</b>	<b>1,804</b>	<b>645</b>	<b>55,208</b>	<b>100</b>

The manager's mandate is summarised in the following:

- 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

<i>Period</i>	<b>Manager</b> %	<b>Benchmark</b> %	<b>Variance</b> %	<b>Comment</b>
<b>Last 3 months</b>	4.6	5.3	-0.7	underperformed
<b>Last 12 months</b>	0.2	2.4	-2.1	underperformed
<b>Last 3 years</b>	4.5	5.3	-0.8	underperformed
<b>Last 5 years</b>	5.2	5.7	-0.4	underperformed

## (2) UBS Global Equity (Passive)

- 5.3 The passive equity portfolio was valued at £240.3m (£226.1m in March 2016). During the quarter the manager's performance of 6.3% was in-line with the benchmark of 6.3%.

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

<i>UBS Passive</i>	31/03/2016		<b>Purchases</b> £000	<b>Sales</b> £000	<b>Gain/ Loss</b> £000	<b>Income</b> £000	30/06/2016	
	£000	%					£000	%
<b>UK Equities</b>	124,104	55	6,363	2,966	4,626	1,225	132,127	55
<b>North America</b>	47,898	21	0	1,800	4,890	0	50,988	21
<b>Continental Europe</b>	26,942	12	0	0	1,161	0	28,104	12
<b>Japan</b>	13,438	6	0	200	1,185	0	14,423	6
<b>Total Pacific (ex Japan)</b>	14,180	6	0	300	1,095	0	14,975	6
<b>Cash &amp; Alternatives</b>	-489	0	9,002	8,812	-1	1	-299	0
<b>Total</b>	<b>226,073</b>	<b>100</b>	<b>15,366</b>	<b>14,078</b>	<b>12,957</b>	<b>1,196</b>	<b>240,318</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>
Last 3 months	6.3	6.3	0	In line
Last 12 months	7.4	7.4	0	In line
Last 3 years	8.5	8.5	0	In line
Last 5 years	8.3	8.3	0	In line

### (3) UBS Property Fund

- 5.4 The market value of the property portfolio managed by UBS was £15.2m (£15.2m in March 2016). The portfolio return was 1.0% during the quarter, compared to the benchmark return of 0.1%.

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

<b>UBS Triton (Property)</b>	<b>31/03//2016</b>		<b>Purchases</b>	<b>Sales</b>	<b>Gain/Loss</b>	<b>Income</b>	<b>30/06/2016</b>	
	<b>£000</b>	<b>%</b>					<b>£000</b>	<b>£000</b>
<b>Property</b>	14,591	96	0	0	-21	165	14,570	96
<b>Cash &amp; Cash Alternatives</b>	593	4	136	88	0	0	642	4
<b>Total</b>	<b>15,184</b>	<b>100</b>	<b>136</b>	<b>88</b>	<b>-21</b>	<b>165</b>	<b>15,212</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>	
<b>Last 3 months</b>	1.0	0.1	0.9	outperformed
<b>Last 12 months</b>	8.4	7.2	1.2	outperformed
<b>Last 3 years</b>	14.0	12.5	1.5	outperformed
<b>Last 5 years</b>	6.6	8.4	-1.8	underperformed

### Aberdeen Asset Management

- 5.5 Aberdeen manages two portfolios for the LB Pension Fund.

#### (1) Aberdeen Active Global Equity

- 5.6 The market value of the active equity portfolio managed by Aberdeen was £104.4m (£97.2m in March 2016). The portfolio return was 7.5% during the quarter, compared to the benchmark of 5.9%.

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

<i>Aberdeen Active Equity</i>	31/03/2016		Purchases £000	Sales £000	Gain/ Loss £000	Income £000	30/06/2016	
	£000	%					£000	%
UK Equities	51,320	53	5,485	4,356	3,289	677	55,739	53
North America	5,766	6	0	0	576	1	6,342	6
Continental Europe	14,565	15	868	497	670	229	15,605	15
Japan	8,107	8	4,957	4,957	-14	23	8,093	8
Total Pacific (ex Japan)	6,517	7	0	0	751	33	7,268	7
Other Intl Equities	10,104	10	0	975	1,043	48	10,172	10
Cash & Alternatives	783	1	18,656	18,253	7	1	1,193	1
<b>Total</b>	<b>97,162</b>	<b>100</b>	<b>29,966</b>	<b>29,038</b>	<b>6,322</b>	<b>934</b>	<b>104,412</b>	<b>100</b>

- 5.7 Although this portfolio is an active mandate 35% 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	7.5	5.9	1.6	outperformed
Last 12 months	4.1	4.9	-0.8	underperformed
Last 3 years	5.0	6.7	-1.7	underperformed
Last 5 years	6.6	6.2	0.4	outperformed

## (2) Aberdeen (Bonds)

- 5.8 The market value of the bonds portfolio was £144.9m (£130.9m in March 2016). During the quarter the manager's performance of 10.7% was in-line with the benchmark of 10.7%.

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

<i>Aberdeen (Bonds)</i>	31/03/2016		Purchases £000	Sales £000	Gain/ Loss £000	Income £000	30/06/2016	
	£000	%					£000	%
UK Bonds	32,682	25	306	261	3,224	10	35,952	25
Overseas Bonds	33,074	25	0	360	3,477	16	36,191	25
UK Index Linked	65,173	50	331	0	7,265	22	72,769	50
Cash & Alternatives	16	0	620	637	2	0	2	0
<b>Total</b>	<b>130,945</b>	<b>100</b>	<b>1,258</b>	<b>1,258</b>	<b>13,968</b>	<b>11</b>	<b>144,913</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	10.7	10.7	0	In line
Last 12 months	20.5	20.6	-0.1	underperformed
Last 3 years	11.1	11.3	-0.2	underperformed
Last 5 Years	9.6	10.0	-0.4	underperformed

### BlackRock (Property)

- 5.9 The market value of the property portfolio managed by BlackRock was £6.8m (£6.7m in March 2016). The return on the portfolio was 1.3%, compared to benchmark return of 0.1%.

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

<i>Blackrock</i>	31/03/2013		Purchases £000	Sales £000	Gain/Loss £000	Income £000	30/06/2016	
	£000	%					£000	%
Property	6,721	100	70	0	54	45	6,846	100
Cash & Cash Alternatives	0	0	70	70	0	0	0	0
<b>Total</b>	<b>6,721</b>	<b>100</b>	<b>141</b>	<b>70</b>	<b>54</b>	<b>32</b>	<b>6,846</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.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	1.3	0.1	1.2	outperformed
Last 12 months	6.7	7.2	-0.5	underperformed
Last 3 years	10.6	12.5	-1.9	underperformed

## 6. OTHER ISSUES AFFECTING THE FUND

- 6.1 Review of the pension fund investment strategy and investment management arrangements and triennial actuarial valuation are ongoing. A Pension Fund Business Plan and PFAC Work Programme are in place. The Pension Fund annual report and Accounts for 2015/16 has been audited.

**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: 28 September 2016**

Agenda item: 4

Wards: All

### **Subject: PRESENTATION BY UBS 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 April 2016 – 30 June 2016)"
  - b) To note that UBS Asset Management has been invited to give a presentation to the Committee and Members will be able to probe the manager's activity and performance for the quarter to 30 June 2016 and the period to date.
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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 level and individual fund managers. The purpose of this report is to inform Members that UBS Asset Management will be attending this meeting to give a presentation to the Committee covering the manager's three mandates: Global Active Equity, Passive Equity and Property.
- 1.2 The Quarterly Performance Review (1 April 2016 to 30 June 2016) 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 UBS Presentation at this meeting is reflected in the PFAC Work Programme to ensure that performance of the Pension Fund and individual fund managers are reviewed in turn throughout the year.

## **2. UBS ASSET MANAGEMENT**

- 2.1 UBS Asset Management manages active global equity, passive equity and property portfolios 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 representative attending this meeting are provided in the manager's presentation material and the Agenda for this meeting.
- 2.3 The manager's presentation material will be provided at the meeting.
- 2.4 The presentation is consistent with the Pension Fund Business Plan and PFAC Work Programme 2016/17 which provide the framework for the Committee to monitor the performance of the Pension Fund and fund managers effectively throughout the year. The Work Programme gives the order in which managers are 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**

None

**10. BACKGROUND PAPERS**

Quarterly Performance Review (1 April 2016 – 30 June 2016) – Director of Corporate Services report to PFAC on 28 September 2016.

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

**Date: 28th September 2016**

Agenda item: 5

Wards: All

### **Subject: UPDATE ON THE REVIEW OF THE PENSION FUND INVESTMENT STRATEGY**

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. Members are asked to read this report in conjunction with the separate reports titled "Update on the Pension Fund Triennial Actuarial Valuation" and "Replacement of the Statement of Investment Principles (SIP) with Investment Strategy Statement (ISS)" to this Committee.
- b) To note the introduction of the Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2016 coming into force in 2016 to supersede the Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2009 (as amended), tough new requirements on administering authorities and power of intervention for the Secretary of State.

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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 investment strategy review work being carried out by JLT, the Pension Fund investment adviser, in consultation with officers and Barnett Waddingham, the Fund Actuary. The investment strategy review work would enable JLT to assist the Committee in developing a new strategy, creating appropriate mandates, updating the Statement of Investment Principles and selecting suitable fund managers through a competitive OJEU process.
- 1.2 JLT, Barnett Waddingham and Council officers have been working collaboratively preparing comprehensive information and cashflows for the initial modelling work to support the strategy review.
- 1.3 The investment strategy review will take account of the new Regulations and additional requirements imposed on administering authorities.

## **2. NEXT STEPS**

- 2.1 The Fund Actuary will provide preliminary valuation results, associated cashflows and sensitivities/duration, including change in total liabilities, interest rates and inflation and sensitivity to the funding position to inform the investment review.
- 2.2 The Actuary's data would provide JLT clear insight into the valuation approach to ensure that JLT's approach is consistent with the Actuary's assumptions and the level of prudence implicit in the Actuary's discussions with Council officers.
- 2.3 Review of the investment strategy. It is important to confirm potential changes to the pension fund investment strategy with the appointed Investment Adviser to determine the appropriate asset allocation, benchmarks and performance targets to inform the Committee's decision on the nature of the mandates to be awarded. This would ensure that fund managers' approach and style are consistent with the investment objectives and the Committee's risk appetite and that there is complementarity of fund managers.
- 2.4 Officers anticipate JLT will model various options and asset allocation structures and their ideas will be presented to the Committee at or before the next meeting to be held on 1<sup>st</sup> December 2016.
- 2.5 Governance and monitoring matters will be addressed – training for Committee members, adoption of appropriate benchmarks, update of the Statement of Investment Principles and creation of new template for performance monitoring reports prior to preparing fund manager tender documents for the OJEU process.

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

- 3.1 Discussion is on-going about the procurement approach that would ensure compliance with EU procurement regulations. However, in any event, a rigorous procurement exercise will be undertaken for this scale and profile of contract.
- 3.2 Internal procurement resources can manage the procurement process for the appointment of fund managers, but the investment adviser will be required to assist with the development of specifications and the evaluation of technical aspects of the bids received.

## **4. LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)**

- 4.1 An alternative to pursuing OJEU procurement would be to use the London CIV which is now actively taking investments.
- 4.2 An update on the CIV is the subject of a separate report to this meeting

**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.

6.2 There will be a one-off cost in procuring investment adviser to support the fund manager procurement process. This will be charged to the pension fund.

**7. LEGAL AND STATUTORY IMPLICATIONS**

7.1 Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2016 coming into force in 2016 to supersede the Local Government Pension Scheme (Management and Investment of Funds) Regulations) 2009 (as amended)

7.2 The new Regulations impose strict new requirements on administering authorities and give the Secretary of State power of intervention.

**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 the Council's 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. The other reports to this meeting.

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

**Date: 28 September 2016**

Agenda item: 6

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 "Update on the Review of the Pension Fund Investment Strategy". Members should also note the links between this report and separate report on the Risk Register. In addition, this report should be read in conjunction with the Pension Fund Business Plan and this Committee's Work Programme.
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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 29 June 2016, on the CIV's recent and upcoming activity, membership, current fund management arrangement and 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 London Borough of Bromley resolved to join the London CIV, in July 2016, meaning that all the 33 London boroughs are now involved in developing the CIV.
- 2.2 On 19<sup>th</sup> July 2016, London CIV made the final submission to the DCLG in connection with the government's consultation on pooling. The CIV's submission to DCLG is appended to this report. Members are asked to read the CIV's submission in conjunction with L B Merton's additional response to DCLG in connection with the LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) Consultation also appended to this report. Also, the London

CIV and the Government's Consultation and pooling agenda are reflected in the Pension Fund Business Plan 2016/17 and PFAC Work Programme.

- 2.3 London 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 August 2016, the CIV commenced comprehensive search for global equity managers. The tender issued on 26th August invited submissions from suitably qualified fund managers for four separate lots: Generic Global Equity with 6 different strategies, Emerging Markets, Sustainable Equity and Incubator Managers. Factsheet of the lots is appended to this report. The CIV has appointed Mercer and Redington to advise on the fund managers search. Deadline for responses to the tender was Friday 16th September 2016 and submissions will be reviewed by the CIV prior to holding meetings and special information sessions involving London Boroughs and selected fund managers towards the end of the calendar year.
- 2.4 The CIV is also seeking to broaden its range of products to fixed interest in the near term.
- 2.5 The CIV anticipates circa £5.5billion inflow from 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 seeking to introduce additional mandates and fund managers to broaden its appeal.

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

- 3.1 As part of the 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.

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

- 4.1 N/A

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

- 6.1 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.

- 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” was 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.

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

- 7.1 N/A

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

- 8.1 N/A

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

- 9.1 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.

## **10. APPENDICES**

1. London CIV Global Equities Procurement – Investment Strategy Lots
2. London CIV Submission to DCLG - July 2016
3. L.B Merton additional submission to DCLG – July 2016

## **11. BACKGROUND PAPERS**

1. London CIV Final Response to LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) – July 2016
2. LB Merton Final Additional Response to LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) – July 2016

3. LGPS: Opportunities for collaboration, cost savings and efficiencies - DCLG Consultation Response – 25 November 2015
4. London CIV communication – emails (July – September 2016)

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

**Date: 28 September 2016**

Agenda item: 7

Wards: All

## **Subject: MERTON PENSION BOARD**

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 read the report in conjunction with the Merton Pension Board Work Programme 2016/17 appended to this report.

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

- 1.1 The purpose of this report is to update this Committee on the activity of the Merton Pension Board for the period 1 April – 30 June 2016.
- 1.2 Merton Pension Board was established by the Council in March 2015 under the Public Service Pensions Act 2013 to assist the Council as administering authority to secure compliance with the Scheme regulations, any other legislation relating to the governance and administration of the Scheme and any requirements imposed by the Pensions Regulator and to ensure the effective and efficient governance and administration of the Scheme.

## **2. BOARD MEMBERSHIP**

- 2.1 Scheme employers and Scheme members have equal representation on the Board and the current composition is:

### Scheme Employers Representatives

- Kim Brown (L.B Merton) – Chair at the meeting held on 5<sup>th</sup> April 2016
- Ian McKinnon (CHAS)

### Scheme Members Representatives

- Tina Pickard (UNISON)
- Gwyn Isaac (GMB)

### **3 ACTIVITY OF THE BOARD**

- 3.1 The Board held its first meeting on 5<sup>th</sup> April 2016 and resolved to elect the Chair on a rotating basis determined at each meeting.
- 3.2 The Board approved its Work Programme for 2016/17 (attached) and received some training at the inaugural meeting.
- 3.3 The next meeting of the Board will be held on 30<sup>th</sup> September 2016. The Agenda and Minutes of the last meeting held on 5<sup>th</sup> April 2016 are attached to this report.
- 3.4 The Board will submit an annual report to the Standards and General Purposes Committee summarising its work for the year.

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

- 4.1 N/A

### **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. The expenses of the Board are regarded as part of the costs of administration of the Pension Fund. Accordingly, any costs would be charged to the Pension Fund as part of the costs of administration of the Fund.

### **6. LEGAL AND STATUTORY IMPLICATIONS**

- 6.1 The Public Service Pensions Act 2013 (“the Act”) requires LGPS administering authorities to establish a Local Pension Board by 1<sup>st</sup> April 2015 to assist administering authorities with scrutiny and compliance. The Council must have regard to the statutory guidance issued by the Secretary of State in relation to Local Pension Boards.

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

- 7.1 N/A

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

- 8.1 N/A

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

- 9.1 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.

**10. APPENDICES**

1. Merton Pension Board Work Programme 2016/17
2. Agenda of Pension Board Meeting on 5 April 2016
3. Minutes of the Pension Board Meeting on 5 April 2016

**11. BACKGROUND PAPERS**

- 11.1 Report on the set up of Merton Pension Board – Report to GPC on 12 March 2015.
- 11.2 Meeting Pack for Merton Pension Board Meeting on 5 April 2016

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

**Date: 28 September 2016**

Agenda item: 8

Wards: All

### **Subject: UPDATE ON THE PENSION FUND TRIENNIAL ACTUARIAL VALUATION**

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 that the report is linked to a separate report titled "Update on the Review of the Pension Fund Investment Strategy" to this Committee.

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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 triennial actuarial valuation process to examine the financial health of the L. B Merton Pension Fund and set appropriate contribution rates for the employers in the Scheme for the next three years effective from 1 April 2017 and to help the Pension Fund to manage risk. The valuation is being carried out based on the Fund data as at 31 March 2016 in accordance with Regulation 62 of the Local Government Scheme Regulations 2013 (as amended).
- 1.2 The actuarial valuation is being carried out taking account of the new Section 13 report introduced by the Government Actuary's Department (GAD) to test whether LGPS Funds meet four key objectives: compliance, consistency, solvency and long-term cost-effectiveness.

## **2. NEXT STEPS**

- 2.1 Officers have provided comprehensive information and required data to Barnett Waddingham, the Fund Actuary to facilitate initial modelling to produce whole Fund results. This initial output will inform the Actuary's discussion with Council officers at this stage in the valuation process.

- 2.2 A number of key economic and financial assumptions will be evaluated. The aim of the stress-test is to determine the sensitivity of the results to changes in the assumptions on a “best-estimate” basis to aide decision-making.
- 2.3 The Fund Actuary is required to submit the results to the Scheme Advisory Board (SAB) as part of the government’s effort to standardise valuation approach via the use of consistent set of assumptions determined by the SAB.
- 2.4 Refined assumptions agreed between the Fund Actuary and the administering authority will be documented and used to prepare/revise the Funding Strategy Statement in line with CIPFA Guidance.
- 2.5 Scheme employers will be required to agree a deficit recovery plan with the Council as administering authority. This would allow the Fund Actuary to issue a Rates and Adjustment Certificate to certify that the funding target and fully-funded status can be achieved by the end of the recovery period.

### **3. ACTUARIAL INPUT TO THE INVESTMENT STRATEGY REVIEW**

- 3.1 Discussion with the Fund Actuary and the output of the actuarial valuation will be fed into the review of the investment strategy. It is important to review the pension fund investment strategy alongside the actuarial valuation to determine the appropriate asset allocation, benchmarks and performance targets. This would better inform the Committee’s decision on the nature of the mandates to be awarded. Also, it would ensure that fund managers’ approach and style are consistent with the investment objectives and the Committee’s risk appetite and that there is complementarity of fund managers.

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

- 4.1 N/A

### **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.
- 5.2 There will be a one-off cost in carrying out the actuarial valuation, estimated to be under £50k. This will be charged to the pension fund.

### **6. LEGAL AND STATUTORY IMPLICATIONS**

- 6.1 The contributions payable by employers in the LGPS in respect of benefits, expenses and deficit must be set out in a Rates and Adjustments Certificate

issued in accordance with Regulation 62 of the Local Government Scheme Regulations 2013 (as amended).

**7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

7.1 N/A

**8. CRIME AND DISORDER IMPLICATIONS**

8.1 N/A

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

9.1 GAD's assumptions and tests to be used for Section 13 purposes at 2016 are unlikely to be clarified before the deadline for completing the actuarial valuation. Delays in the Actuary's ability to ascertain GAD's approach could impinge on the contribution rate setting process.

**10. APPENDICES**

None

**11. BACKGROUND PAPERS**

1. Various notes provided by the Fund Actuary.

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

**Date: 28 September 2016**

Agenda item: 9

Wards: All

### **Subject: REPLACEMENT OF THE STATEMENT OF INVESTMENT PRINCIPLES (SIP) WITH INVESTMENT STRATEGY STATEMENT (ISS)**

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 authorise Officers to commence the production of an Investment Strategy Statement (ISS) in consultation with JLT, the Pension Fund adviser, to replace the Statement of Investment Principles (SIP) and bring draft ISS for consideration by the Committee at the next meeting to be held on 1<sup>st</sup> December 2016.
- b) To read this report in conjunction with the separate report titled "Update on the Review of the Pension Fund investment strategy" to this meeting.
- c) To read this report in conjunction with the separate report titled "Update on London CIV" to this meeting.
- d) To read this report in conjunction with the attached Guidance on producing and maintaining an Investment Strategy Statement (ISS) introduced to replace the Statement of Investment Principles (SIP) and note that the new Regulations impose stringent new requirements on administering authorities consistent with the government's pooling agenda.
- e) To note the introduction of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 coming into force in 2016 will supersede the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).
- f) To note the obligations on administering authorities under the new Regulations and the power of intervention/direction by the Secretary of State under the Regulations.
- g) To note the requirement for administering authorities to set out their approach to pooling, notify the Scheme Advisory Board (SAB) and Secretary of State of any changes which could delay/prevent authorities from pooling and submit annual

progress report on pooling to the SAB to include timeframe for review and criteria for transferring assets sitting outside the pool into the pool.

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

- 1.1 The purpose of this report is to request Committee approval for Officers to commence the production of an Investment Strategy Statement (ISS) to replace the current Statement of Investment Principles (SIP) in line with the new Guidance for producing and maintaining the ISS under the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and bring the draft ISS for consideration by the Committee at its next meeting to be held on 1st December 2016.
- 1.2 The SIP sets out the agreed policy which determines how the Pension Fund invests its assets. The current (2009) regulations require administering authorities to review and publish a SIP covering their policy on:
- Types of investment to be held
  - Balance between different types of investments
  - Attitude to risk and approach to its management
  - Expected return on investments
  - Extent to which social, environmental or ethical considerations are taken into account.
- 1.3 Under the 2009 regulations, administering authorities must also explain in the SIP the extent to which they comply with six principles of good practice:
- Effective decision-making
  - Clear objectives
  - Risk and liabilities
  - Performance assessment
  - Responsible ownership; and
  - Transparency and reporting
- 1.4 The current SIP was approved by PFAC on 15<sup>th</sup> September 2014. Since then, many changes have taken place as part of the government's reform of the LGPS culminating in a raft of new regulations. In particular, pooling has ushered in a new era for the LGPS and the SIP does not fit in with the pooling agenda.

## **2. REASONS FOR REPLACING THE SIP**

- 2.1 The government has this week published its “Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS)”.
- 2.2 New investment regulations to be introduced this year will require administering authorities to publish an Investment Strategy Statement (ISS) by 1<sup>st</sup> April 2017 in accordance with the Guidance attached to this report.
- 2.3 Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 coming into force later this year will require administering authorities to comply with the attached Guidance.
- 2.4 For clarity, the requirement above in paragraph 2.3 is in addition to the duty of administering authorities to prepare, maintain and review their Funding Strategy Statement (FSS) under Regulation 58 of the Local Government Pension Scheme Regulations 2013.

## **3 THE NEW INVESTMENT STRATEGY STATEMENT**

- 3.1 Under Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, administering authorities are required to formulate an investment strategy which must comply with Guidance issued by the Secretary of State. The Investment Strategy Statement must include:
  - a) A requirement to invest money in a wide variety of investments;
  - b) The authority’s assessment of the suitability of particular investments and types of investments;
  - c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
  - d) The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
  - e) The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
  - f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.
- 3.2 The new ISS must set out the maximum proportion (%) of the Pension Fund’s total assets to be invested in particular investments or asset classes. This supersedes Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

3.3 The ISS must be published by 1<sup>st</sup> April 2017 and reviewed and revised as necessary and at least once every three years. For the avoidance of doubt, key elements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 will remain in force until the 2016 Regulations come into effect this year.

3.4 The Secretary of State has the power of direction under Regulation 8 of the 2016 Regulations to compel an administering authority to change its investment strategy within specific deadline, to invest assets as directed by the Secretary of State, and to relieve an administering authority of its investment functions in line with Section 13(4) of the Public Service Pensions Act 2013 and giving regard to reports from the Scheme Advisory Board or from the local Pension Board.

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

4.1 N/A

#### **5. FINANCIAL, RESOURCES 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.

5.2 There will be a one off-cost in procuring investment adviser to support the production of the new Investment Strategy Statement, estimated to be under £20k. This will be charged to the Pension Fund.

#### **6. LEGAL AND STATUTORY IMPLICATIONS**

6.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 will come into force in 2016 to supersede the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The new Regulations will require administering authorities to produce and publish an Investment Strategy Statement (ISS) by 1<sup>st</sup> April 2017 to replace the current Statement of Investment Principles (SIP) in line with Guidance published by the Government in September 2016.

6.2 L.B Merton is reviewing its Pension Fund investment strategy. Contracts resulting from implementation of the new strategy will have legal implications for the Fund. Whichever procurement route is followed and whether or not any of the procurements fall within the EU regulations, there is still the need to demonstrate fairness and transparency. There will also be a need for Legal input in drafting or approving contract terms and conditions. If use of a framework is pursued, then there is likely to be an Access Agreement required, which will also necessitate Legal input.

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

7.1 N/A



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

8.1 N/A

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

9.1 It would be prudent to review the products and terms available from the CIV before committing to formal independent tenders. The use of London CIV would enable a quicker, simpler process, but any delays in the CIV's ability to take investments could impinge on the Council's ability to implement new investment strategy by the end of 2016/17.

## **10. APPENDICES**

1. Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) published by the government in September 2016.

## **11. BACKGROUND PAPERS**

11.1 Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) published by the government in September 2016.

11.2 L.B Merton's Statement of Investment Principles approved by PFAC in September 2014.

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

**Date: 28 September 2016**

Agenda item: 10

Wards: All

### **Subject: PENSION FUND RISK REGISTER**

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 the Pensions risk register (June – September 2016) attached to this report and to further note the managed and unmanaged risks, control measures and responsibilities.
  - b) To consider the attached quarterly pensions risk register by exception.
- 

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

- 1.1 The purpose of this report is to present the pensions risk register for consideration by this committee as part of its governance and risk management responsibilities. The Committee is required to review and consider and decide on the risks inherent in administering the Scheme and the Pension Fund both at total Fund level and individual fund managers. .
- 1.2 The LGPS is experiencing fundamental reforms in its membership, benefits, investments and governance arrangements. Central to the government reform agenda is the wave of regulatory changes and the pressure from frequent Government reform announcements has added to the overall risk faced by administering authorities including time pressure in securing compliance with new Regulations.
- 1.3 The Government has announced the introduction of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to supersede Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The new Regulations discussed in a separate report titled “Replacement of Statement of Investment Principles (SIP) with Investment Strategy Statement (ISS) impose tough new requirements on administering authorities and is due to come into force in 2016.

## **2. PENSIONS RISK REGISTER (JUNE – SEPTEMBER 2016)**

- 2.1 L.B Merton as administering authority, like other authorities, faces regulatory, financial, economic, operational, investment and governance risks. The risk register identifies key risks involved in administering the Scheme and managing the Pension Fund and enables the Committee to consider the risks, assess the significance of the risks, including the likelihood of occurring and severity of impact. Risks are evaluated on a consistent basis with the overall rating/score being the product of likelihood and impact values.
- 2.2 One area of concern amongst administering authorities is the imposition of challenging deadlines on authorities to secure compliance with tough new requirements based on Regulations that are not fully developed. This increases the risk of non-compliance and could also undermine service delivery and drive up costs.
- 2.3 Another important new risk facing administering authorities is the recent vote for the UK to leave the European Union. As yet, the real (longer-term) impact is difficult to assess.
- 2.4 The risk register also highlights pooling as a major risk. This is the risk that London CIV, like any other fund manager, fails to deliver anticipated performance or cost benefits.

## **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 EXTRANEEOUS 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**

1. Pensions risk register (June – September 2016)

**10. BACKGROUND PAPERS**

1. Pensions risk register (June – September 2016)

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

**Date: 28 September 2016**

Agenda item: 11

Wards: All

### **Subject: PENSION FUND CASHFLOW**

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 the impact of scheme membership on the funding of the pension fund.

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

- 1.1 The purpose of this report is to provide this Committee with the Pension Fund cashflow statement for 2016/17. The Committee is required to review the pension fund cashflow on a regular basis as part of its monitoring duties.
- 1.2 The cashflow also provides some insights into the changing pattern of scheme members for the year.

## **2. PENSION FUND CASHFLOWS**

- 2.1 At the Committee meeting held on 29<sup>th</sup> June 2016, Members asked about the current status of the Pension Fund in terms of its cashflow. Officers advised that the Pension Fund is cashflow positive, meaning that contributions exceed benefit payments with surplus sums available for investment.
- 2.2 This report analyses the income and expenditure of the Pension Fund for the year, showing actuals from April to August and forecast for September to March 2017.
- 2.3 Also, the report provides a summary of the change in membership since the beginning of the year provides forecast to the rest of the year.
- 2.4 The table below shows that total income of £25.4m for 2016/17 is estimated to exceed £24.1m received in 2015/16 representing an increase of 5.4%. The

change was largely due to the increase in employer contributions received reflecting the introduction of CARE, auto-enrolment and increase in pay scales. Likewise, employee contributions are forecast to increase significantly this year for the same reasons. Also, pension strain costs are estimated to fall markedly in 2016/17 compared to last year.

LONDON BOROUGH OF MERTON PENSION FUND CASHFLOW- 2016/17

			a	b	
	Period 1-5 Actuals	Period 6-12 Estimated	Estimated yr end cashflow 16/17	Year end 15/16	Variance a-b
<b>INCOME</b>					
Employers Contributions	-4,024,821	-8,440,721	-12,465,542	-11,596,276	-869,266
LBM Deficit Funding	-4,395,000	0	-4,395,000	-4,205,000	-190,000
Pension Strain	-200,466	-280,652	-481,119	-683,525	202,406
Employees Contributions	-1,923,663	-3,891,320	-5,814,983	-5,496,634	-318,349
Additional Contributions	-2,026	-3,545	-5,571	-4,889	-682
Transfers IN	-1,985,558	-285,582	-2,271,140	-2,152,633	-118,507
<b>Total Income</b>	<b>-12,531,533</b>	<b>-12,901,821</b>	<b>-25,433,354</b>	<b>-24,138,957</b>	<b>-1,294,398</b>
<b>EXPENDITURE</b>					
Pensions Payable	8,163,265	11,428,572	19,591,837	19,239,032	352,805
Lump Sums - On Retirement	1,648,393	2,307,750	3,956,143	3,625,755	330,388
Lump Sums - On Death	53,907	77,622	131,529	870,537	-739,008
Refunds	46,261	64,765	111,026	29,500	81,526
Pension Act Premiums	-5,798	-8,117	-13,914	35,040	-48,954
Transfer Values OUT	249,078	348,709	597,786	2,731,760	-2,133,973
Administration Costs	20,762	302,446	323,207	323,207	0
Investment Management Costs	-169,058	1,076,086	907,028	907,028	0
<b>Total Expenditure</b>	<b>10,006,810</b>	<b>15,597,833</b>	<b>25,604,643</b>	<b>27,761,860</b>	<b>-2,157,217</b>
<b>Net (income) / Expenditure</b>	<b>-2,524,723</b>	<b>2,696,012</b>	<b>171,289</b>	<b>3,622,903</b>	<b>-3,451,615</b>

2.5 Also, the above analysis shows that significantly lower total expenditure of £25.6m is expected this year compared to £27.8m last year. This represents a fall of 7.9%. The biggest falls are expected in the amount of transfer values out and lump sums on death.

### 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**

None

**10. BACKGROUND PAPERS**

1. Audited Pension Fund Annual Report and Accounts 2015/16
2. Pension fund Cashflow records 2016/17

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