

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: Thursday 1 December 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 or telephone [020 8545 3458](tel:02085453458).

All Press contacts: communications@merton.gov.uk, 020 8545 3181

Pension Fund Investment Advisory Panel Agenda

1 December 2016

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2	Declarations of pecuniary interest	
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	8 th 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 Mark Allison
Paul Dale (Assistant Director of Resources LBM)
Caroline Holland (CS Director LBM)
Paul Audu (Interim Head of Treasury and Pensions),

Additional Attendees: Malcolm Gordon (UBS Asset Management)

1. MEETING

- 1.1 Welcome and Introduction by Chair
- 1.2 Apologies for lateness: None
- 1.3 Apologies for absence: Cllr Adam Bush (Vice Chair);
Tina Pickard (Pensioner Rep - Unison); Gwyn Isaac (GMB Branch Secretary)
- 1.4 Members Declaration of Interest - Caroline Holland (Director of CHAS)

2. PRESENTATION OF MINUTES OF LAST MEETING (29.6.16)

- 2.1 The key actions were:
 - Work programme now amended – PA to arrange for JLT to attend the Committee meeting on 1st December 2016.
 - Meetings of Merton Pension Board to take place prior to PFAP in order that minutes of the Board can be taken into consideration.
 - Chair asked it to be noted that special meeting on 6th September 2016 to discuss audited Pension Fund accounts was cancelled.

3. QUARTERLY PERFORMANCE REVIEW (1st April – 30th June 2016)

- 3.1 The market value of the Fund was £567.1m at the end of June 2016 up by £38.2m from the end of March 2016. Total Fund return was 7.2% outperforming the benchmark return of 6.9% during the quarter despite challenging markets and economic environment.
- 3.2 PA discussed the performance report in brief mindful of UBS imminent arrival to update the Committee. He said that the active equity mandate managed by UBS had not performed well for a protracted period and that UBS would offer some explanation in their presentation.
- 3.3 Aberdeen (Bonds) performed in line with the benchmark during the quarter but longer term the manager's results relative to the benchmark were mixed.
- 3.4 The picture for BlackRock (Property) was similar to Aberdeen's both for the quarter and longer term.
- 3.5 The Committee discussed market prospects, changing regulatory environment and developments at the London CIV.

4. PRESENTATION BY UBS Asset Management

The Chair welcomed Malcolm Gordon, Head of UK Institutional from UBS to the meeting and invited him to give an update on the three mandates – passive equities, active equities and property managed by UBS. The key points were:

4.1 The combined market value of the three mandates managed by UBS was £311m at the end of June 2016.

4.2 Passive Mandate – Global Equities

The passive business at UBS is a key pillar of the organisation with a dedicated, experienced team managing £150bn. UBS has been one of the fastest growing passive managers year-on-year since 2006. The portfolio has performed in line with the benchmark over all time periods.

4.3 Active Mandate – UK Equities

Performance has been disappointing over the 12 months to the end of June, which in turn dampened the longer term performance. The 12 month underperformance was driven by poor performance from within the financial sector, with HSBC, Lloyds and Prudential detracting from performance. Malcolm then moved on to discuss the outlook for the UK market post Brexit. The UK equity market is not dependent on the UK economy given 70% of earnings are derived from overseas. There will be heightened uncertainty for a period of time but consumption and employment are holding up well and sterling weakness is a positive for UK exporters.

Malcolm noted that this mandate is a legacy strategy that UBS will be looking to close. Malcolm requested that this be taken into consideration when reviewing strategic asset allocation with JLT.

4.4 Active Mandate – Global Emerging Markets

Performance was strong over the 12 months to the end of June, with the portfolio outperforming by almost 5%. This was driven by strong stock selection across most sectors, with the stock holdings in Financials, Technology and Industrials in particular performing well. The outlook for the region is positive, with equity performance finally being driven by underlying corporate profitability. Growth is stabilising in Asia with early signs of recovery outwith Asia. Stock valuation levels are attractive.

4.5 Property Mandate – UBS Triton Fund

UBS Triton is delivering strong performance and has outperformed the benchmark over 1, 2 and 3 years and is in line with the benchmark since its inception in 1994. The fund is well diversified, investing in dominant assets in growth locations with long-term embedded asset management potential. There is a bias towards the forecast growth sectors of retail warehousing and industrial. The fund is income focused with a forecast distribution yield of 5% in 12 months.

4.6 The Chair thanked Malcolm for the presentation. Malcolm departed the meeting.

5. UPDATE ON REVIEW OF THE PENSION FUND INVESTMENT STRATEGY

- 5.1 PA referred to the presentation from UBS and the performance report to advise that officers are working with JLT to bring ideas to committee for consideration at the next meeting on 1st December 2016. He said the comprehensive exercise would involve training for the Committee to support Members' decision-making during the strategy review process.
- 5.2 The Committee discussed the eclectic holdings within some mandates, the consequential restriction on fund managers and impact on portfolio performance. The strategy review should resolving this issue and inappropriate benchmarks.
- 5.3 There was some discussion on the actuarial valuation and linkage to the investment strategy review and timescales. PA said that JLT investment strategies review work was dependent on cashflows and other information from the actuaries and that the actuary's final report was in turn dependent on Government Actuary's Department (GAD) guidance. Actuaries are required to submit reports although the parameters for actuaries are yet unclear.

6.0 UPDATE ON LONDON CIV

- 6.1 PA updated the Committee on progress of London CIV linked to the aforementioned discussion on strategy review. All London boroughs are now involved in developing the CIV. London CIV made final submission to DCLG on 19th July 2016. It anticipates significant growth of assets under management over the next 2 - 3 years as it continues to develop its investment sub-funds across many asset classes.
- 6.2 There was some discussion about when and what could be transferred to the CIV, action taken by other London councils on pooling and government expectation. CH advised that any decision would be based on the outcome of the investment strategy review and fortuitous if it coincided with the fog of regulations lifting to provide some clarity on pooling as well as on the actuarial valuation. PA mentioned that the new regulations effective from 1st November 2016 require authorities to publish the new Investment Strategy Statement (ISS) on 1st April 2017 to replace the current Statement of Investment Principles (SIP).
- 6.4 PD advised that he will be meeting with Hugh Grover CEO at the London CIV in next few weeks.

7. MERTON PENSION BOARD

- 7.1 Committee noted report and papers.

8.0 UPDATE ON PENSION FUND TRIENNIAL ACTUARIAL VALUATION

Committee noted report/papers.

9.0 REPLACEMENT OF STATEMENT OF SIP WITH INVESTMENT STRATEGY STATEMENT (ISS)

- 9.1 Committee noted report/papers.

9.2 There was some discussion on the new LGPS investment regulations and implications for pension funds on pooling, environmental, social and governance (ESG) approach and consistent with government policy the Secretary of State's new power of direction.

9.3 **Action:** PA to provide new ISS to the Committee for approval prior to publication.

10. PENSION FUND RISK REGISTER

10.1 Committee noted report/paper.

10.2 Risk register to be taken to Committee, with action noted of failure to MPF 19 and Section 13 report to be introduced.

11. PENSION FUND CASHFLOW

11.1 Committee noted report/paper.

Date of Next Meetings:

1st December 2016

London Borough of Merton Pension Fund Advisory Committee

Date: 1 December 2016

Agenda item: 3

Wards: All

**Subject: Performance of the Pension Fund for the Quarter Ending 30th
September 2016**

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

Contact officer: Paul Dale

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RECOMMENDATION

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 September 2016, attribution of the results and the market environment during the period.

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform this Committee about the investment performance of LB Merton Pension Fund at total fund level, and of the individual fund managers, for the quarter to 30 September 2016.
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 30 September 2016 and useful background to support future decisions and actions including periodic rebalancing, review of investment strategy and investment management arrangement.

2. PERFORMANCE REPORT

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by State Street GS Performance Services provides useful analysis and insights of the Pension Fund activity and results for the quarter to 30 September 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 September 2016 the total Fund was valued at £609.2m up by £42.3m (or 7.5%) since 30 June 2016.

3. Market Background/Outlook

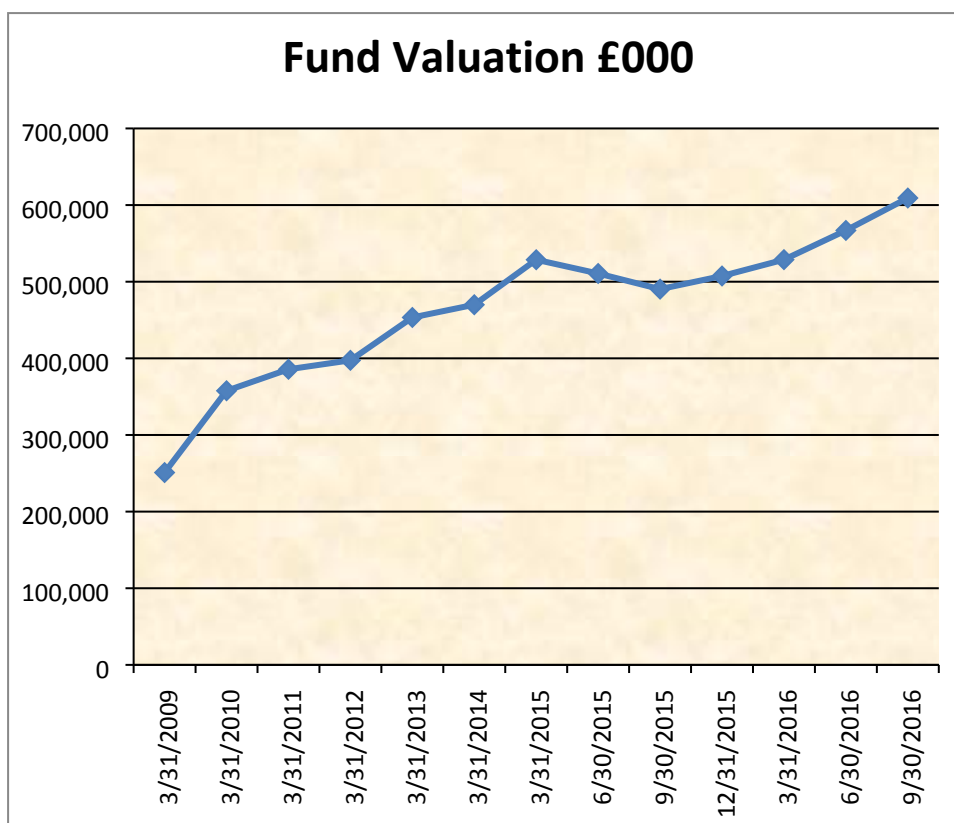
- 3.1 The strong rally in markets for risky assets at the end of June, following the initial falls in the immediate aftermath of UK's decision to leave the European Union, continued for much of the second quarter (1 July – 30 September). Central banks' actions remained in the spotlight over the period. In August, the Bank of England's attempt to mitigate the risks posed by the Brexit vote was well received by equity markets. However, sentiments were mixed on the prospect of a rate rise by the US Federal Reserve (The Fed) in September. In the end the FED decided to leave rates unchanged.
- 3.2 Global equity markets had a good quarter, continuing the strong rebound seen from turbulent period after the vote for Brexit. By contrast, returns on other assets were more subdued, with government bond yields advancing in September after falling earlier in the quarter on the prospect of further central bank support.

4.0 PERFORMANCE OF THE FUND

- 4.1 The table below shows the Fund's strategic asset allocation as at 30 September 2016 against the asset allocation of the benchmark. The Fund was in line with Equities, overweight Bonds and underweight Property compared to the benchmark.

At 30/09/2016	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
Fund Asset Allocation	70.4	25.7	0.5	3.4	100
Benchmark	70.4	25.0	N/A	4.6	100
Difference overweight / (underweight)	-	0.6	N/A	(1.2)	-

- 4.2 The Fund underperformed the benchmark by 0.4% for the quarter ending 30 September 2016. It gained 7.5% compared to the benchmark return of 7.9% for the period.
- 4.3 The 0.4% underperformance was due wholly to stock selection. 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 September 2016. It shows that the market value of the Fund has appreciated by £358m or 143% over the 8 ½-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>	Market Value 1/07/16 £000	Capital Gain/loss £000	Income £000	Market Value 30/09/16 £000	% of Total Fund
UBS Passive Equity	240,318	18,998	929	260,290	43
Aberdeen Fixed Income	144,913	10,610	488	155,778	26
Aberdeen Active Equity	104,412	7,002	424	111,806	18
UBS Active Equity	55,208	4,024	424	59,720	10
UBS Property	15,212	(333)	130	14,917	2
BlackRock Property	6,846	(196)	27	6,693	1
Total External Fund	566,908	40,104	2,422	609,205	100
Internal Investments	150			150	
Total	567,058			609,355	

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
	June 2016 £000	Sept 2016 £000	Sept 2016 %	Sept 2016 %
UK Equities	236,199	251,121	7.2	7.8
Overseas Equities	162,460	178,054	9.2	9.6
• North America	57,330	61,358	7.0	7.1
• Continental Europe	43,709	46,736	9.0	9.1
• Total Far East	44,759	49,830	11.4	12.3
• Other Intl Equities	16,662	20,130	11.3	11.9
UK Bonds	35,952	38,175	5.5	5.8
Overseas Bonds	36,191	37,307	4.0	3.8
UK Index-Linked	72,769	80,271	10.7	11.0
Cash Alternatives	1,922	3,347	(0.2)	-
Property	21,416	20,930	(1.7)	(0.7)
Total	566,908	609,205		

- 4.7 The Fund's assets are diversified across global markets. During the quarter to September 2016, all investments (with the exception of Property) performed well and yielded positive returns.

5. 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 £59.7m (£55.2m in June 2016). The portfolio return was 8.0% for the period, being below the benchmark return of 8.3%.

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

UBS Active Equity	30/06//2016		Purchases £000	Sales £000	Gain/Loss £000	Income £000	30/09/2016	
	£000	%					£000	%
Total Equities	54,824	99	5,473	5,177	4,024	489	59,143	99
Cash & Cash Alternatives	384	1	5,666	5,473	-	-	577	1
Total	55,208	100					59,720	100

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>	Manager %	Benchmark %	Variance %	Comment
Last 3 months	8.0	8.3	(0.3)	underperformed
Last 12 months	16.9	19.2	(2.3)	underperformed
Last 3 years	5.7	6.8	(1.1)	underperformed
Last 5 years	10.6	10.8	(0.2)	underperformed

(2) UBS Global Equity (Passive)

- 5.3 The passive equity portfolio was valued at £260.3m (£240.3m in June 2016). During the quarter the manager's performance of 8.3% matched the benchmark return of 8.3%.

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

<i>UBS Passive</i>	30/06/2016		Purchases £000	Sales £000	Gain/ Loss £000	Income £000	30/09/2016	
	£000	%					£000	%
UK Equities	132,127	55	5,707	3,989	9,249	962	143,095	55
North America	50,988	21	-	-	3,609	-	54,597	21
Continental Europe	28,104	12	-	-	2,561	-	30,665	12
Japan	14,423	6	-	400	1,734	-	15,757	6
Total Pacific (ex Japan)	14,975	6	-	600	1,844	-	16,219	6
Cash & Alternatives	(299)	-	5,964	5,707	-	1	(42)	-
Total	240,318	100	11,671	10,696	18,998	929	260,290	100

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
Last 3 months	8.3	8.3	-	In line
Last 12 months	23.1	23.2	(0.1)	underperformed
Last 3 years	9.9	9.9	-	In line
Last 5 years	13.4	13.3	0.1	outperformed

(3) UBS Property Fund

- 5.4 The market value of the property portfolio managed by UBS was £14.9m (£15.2m in June 2016). The portfolio return was -1.3% during the quarter, compared to the benchmark return of -0.7%.

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

UBS Triton (Property)	30/06//2016		Purchases	Sales	Gain/Loss	Income	30/09/2016	
	£000	%					£000	£000
Property	14,570	96	-	-	(333)	130	14,238	95
Cash & Cash Alternatives	642	4	38	-	-	-	680	5
Total	15,212	100	38	-	(333)	130	14,917	100

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
	%	%	%	
Last 3 months	(1.3)	(0.7)	(0.6)	underperformed
Last 12 months	3.4	3.4	-	In line
Last 3 years	12.5	11.4	1.1	outperformed
Last 5 years	6.2	7.9	(1.7)	underperformed

Aberdeen Asset Management

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

(1) Aberdeen Active Global Equity

- 5.6 The market value of the active equity portfolio managed by Aberdeen was £111.8m (£104.4m in June 2016). The portfolio return was 7.1% during the quarter, compared to the benchmark of 9.0%.

The table below shows the portfolio movement during the period.

<i>Aberdeen Active Equity</i>	30/06/2016		Purchases	Sales	Gain/ Loss	Income	30/09/2016	
	£000	%					£000	£000
UK Equities	55,739	53	2,395	4,488	2,681	474	56,327	51
North America	6,342	6	-	2	420	-	6,761	6
Continental Europe	15,605	15	801	1,646	1,310	36	16,071	14
Japan	8,093	8	1,974	1,010	875	-	9,932	9
Total Pacific (ex Japan)	7,268	7	-	39	694	-	7,923	7
Other Intl Equities	10,172	10	1,553	60	1,022	-	12,686	11
Cash & Alternatives	1,193	1	12,709	11,795	-	1	2,107	2
Total	104,412	100	19,432	19,040	7,002	424	111,806	100

5.7 Although this portfolio is an active mandate, 38% 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	7.1	9.0	(1.8)	underperformed
Last 12 months	21.9	23.0	(1.1)	underperformed
Last 3 years	6.8	8.4	(1.6)	underperformed
Last 5 years	11	11.6	(0.6)	underperformed

(2) Aberdeen (Bonds)

5.8 The market value of the bonds portfolio was £155.8m (£144.9m in June 2016). The portfolio return was 7.7% during the quarter, compared to the benchmark of 7.9%.

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

<i>Aberdeen (Bonds)</i>	30/06/2016		Purchases	Sales	Gain/ Loss	Income	30/09/2016	
	£000	%					£000	£000
UK Bonds	35,952	25	463	16	1,777	222	38,175	25
Overseas Bonds	36,191	25	-	319	1,435	-	37,307	24
UK Index Linked	72,769	50	291	187	7,398	364	80,271	52
Cash & Alternatives	2	-	820	796	-	-	25	0
Total	144,913	100	1,573	1,318	10,610	488	155,778	100

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	7.7	7.9	(0.2)	underperformed
Last 12 months	25.6	25.9	(0.3)	underperformed
Last 3 years	13.9	14.2	(0.3)	underperformed
Last 5 Years	10.0	10.1	(0.1)	underperformed

BlackRock (Property)

5.9 The market value of the property portfolio managed by BlackRock was £6.7m (£6.8m in June 2016). The return on the portfolio was -2.5%, compared to benchmark return of -0.7%.

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

<i>Blackrock</i>	30/06/2013		Purchases £000	Sales £000	Gain/Loss £000	Income £000	30/09/2016	
	£000	%					£000	%
Property	6,846	100	43	-	(196)	43	6,693	100
Cash & Cash Alternatives	-	-	43	43	-	-	-	-
Total	6,846	100	86	43	(196)	27	6,693	100

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	(2.5)	(0.7)	(1.8)	underperformed
Last 12 months	1.4	3.4	(2.0)	underperformed
Last 3 years	9.1	11.4	(2.3)	underperformed

6. OTHER ISSUES AFFECTING THE FUND

6.1 Review of the pension fund investment strategy and investment management arrangement is on-going and is the subject of a separate report 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. APPENDICES

1. State Street Analytics performance report (1st July – 30th September 2016)

12. BACKGROUND PAPERS

12.1 State Street Analytics performance report and individual fund managers' investment reports.

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Committee: Pension Fund Advisory Committee

Date: 1st December 2016

Agenda item: 4

Wards: All

Subject: Investment Strategy Review

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

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Recommendations:

- a) To determine revised investment categories, weightings and benchmarks with JLT.
- b) To identify what alternative investments the committee would like to recommend for the balance of the fund in conjunction with JLT.
- c) To determine what investments should be procured directly and what should be procured via the London CIV.
- d) To agree the recommended approach:
 - i) Procure passive directly
 - ii) Select active funds from the CIV
 - iii) Review the CIV's offering on fixed income and preferably select from their sub-funds. If they are unsuitable for LB Merton then go to the market
 - iv) Look to the CIV for property and assess their offer before making a decision
 - v) Review what the CIV offer in infrastructure investment and assess whether it meets the needs of the Merton Fund
 - vi) Clarify what the benefits of multi asset funds and other alternative investments would be before making any decision to invest
- e) To agree outline timetable for procurement.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report updates the advisory Committee on the options they have to re-tender the und investments and seeks decisions in the changed environment.

2. PREVIOUS DECISIONS

- 2.1 At the meeting of this committee on 17th March 2014 the panel agreed asset allocations for the Fund in the future.

Asset Class	Current		
	Actual	Target	Proposed
Equities	70%	70%	70%
Fixed interest	26%	25%	20%
Property	4%	5%	5%
Alternatives (at this point Equity like DGF was proposed)	0%	0%	5%
Total		100%	100%
Equity Split			
Passive	60%	60%	40%
Active	40%	40%	60%

- 2.2 The selection of active equity managers will be a crucial decision because currently the return on passive equities are substantially higher than on active equities and the latter generally has higher fees.
- 2.3 Since the last discussion at the Committee on 17th March 2014, the Council has appointed JLT as investment advisers and they have different views on asset allocation.
- 2.4. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. It makes investment via LGPS Pools compulsory and the Secretary of State has reserved powers of intervention where authorities are deemed non-compliant.
- 2.5 Performance of the investment classes.

Asset class	Return	
	3 years	
Passive equity		8.50%
Active Equity	Manager 1	4.5%
	Manager 2	5%
Fixed income		11.10%
Property	Manager 1	14%
	Manager 2	10.6%

3. REVIEW OF ASSET CLASSES

- 3.1 Passive equities:

The committee decided to reduce passive equity exposure from 60% of equity investments to 40%. This equates to a reduction from 42% of total investments to 28%.

Currently the split of passive investments between markets is:

Analysis of Passive Equities	
UK	55%
Other European	12%
American	21%
Japanese	6%
Other Overseas	6%

- 3.2 This weighting is disproportionately in the UK given the size of the market relative to the world market. Benchmarks are an issue that need thorough review. The current benchmark is detailed below.

From 26.10.07

	Aberdeen Global Equity	Aberdeen Global Bonds	BlackRock Property	UBS Global Equity Active	UBS Global Equity Passive	UBS Property	Total Fund
UK Equities	55.0			87.3	55.0		41.7
Overseas Equities	45.0				45.0		28.2
North America	6.0				21.0		9.6
Europe ex UK	14.5				12.0		7.7
Pacific Basin ex Japan	7.25				6.0		3.8
Japan	7.25				6.0		3.8
Pacific Inc Japan							0.0
Emerging Markets	10.00			12.7			3.3
UK Bonds		25.0					6.3
Overseas Bonds		25.0					6.3
UK Index-Linked		50.0					12.5
Property			100.0			100.0	5.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: State Street Quarterly Performance Report – Periods to end September 2016

- 3.3 A decision is required about which markets to reinvest passive monies in. Despite trying the London CIV was unable to develop suitable vehicles for passive equities. Passive managers appear to have reduced their fees significantly. The council will need to procure passive investments independently.
- 3.4 The next steps and proposed timeline for activity is given below:

Activity	Date	By Whom /Dependency
Provide training on asset classes to Committee	1 December 2016	JLT/Officers
Update the Committee on Investment Strategy Review work – asset allocation ideas	1 December 2016	JLT/Officers
JLT to receive final cashflows from Fund actuary	16 December 2016	JLT/Barnett Waddingham
Presentation of Investment Strategy Review report	Mid January 2017	JLT/Officers
Preparatory work for strategy implementation - develop ISS, Mandates, Governance, Procurement	Jan – Mar 2017	JLT/Officers

4. ACTIVE EQUITIES

- 4.1 The committee decided to increase this from 40% of Equity investments to 60%. This represents an increase from 28% of total investments to 42%.
- 4.2 The London CIV has gone out to tender for active investments which they intend to put in place throughout 2017. They intend to have a mixture of broad and targeted funds.
- 4.3 This seems to be the main area where the Council should invest in the CIV. The process of investment would be simpler and quicker than an individual tender. This is also the main area where the Council needs to improve performance. Benchmarks are an issue that need thorough review along with the style of managers.
- 4.4 These funds would be placed with the CIV throughout 2017.

5. FIXED INCOME

- 5.1 The CIV has identified that there is no common practice amongst Boroughs about the pattern of investment. It intends to get pooled funds in place by late 2017.
- 5.2 This has been the Council's best returning asset class over a five, three and one year period, there is therefore less urgency about replacing this.

5.3 It would be sensible to await the outcomes of the CIV's work before embarking on a tendering exercise.

6. PROPERTY

6.1. The CIV are seeking to put in place innovative high return investments. There is no timescale for this at the moment.

6.2 The council is getting a reasonable return from property so it would pay to await the outcome of the CIV's work before making a firm decision.

7. INFRASTRUCTURE

7.1 Infrastructure must be seen as a long term investment, but one that requires a governance structure that allows speedy decisions without long drawn out procurement routes. The CIV intends to explore this later.

8. MULTI ASSET FUNDS

8.1 The CIV has 4 multi asset funds in place created by bringing together existing investments.

9. ADVICE OF THE HEAD OF COMMERCIAL SERVICES

9.1 Discussion is still ongoing about which of the procurements detailed above, not done via the CIV, would be caught fully by the EU rules and hence require a full tendering process. However in any event, the Council's constitution would require something essentially as rigorous for this scale and profile of contract.

9.2 Internal procurement resources can manage the procurement process itself, but investment consultants will be required to assist with the evaluation of technical aspects of the bids received. A tender process will be required whereby the consultants are appointed by the Director of Corporate services.

10. CONSULTATION UNDERTAKEN OR PROPOSED

10.1 N/A

11. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

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

11.2 There will be a one off cost in procuring investment consultants to support the procurement process, estimated to be under £100k. This will be charged to the pension fund

12. LEGAL AND STATUTORY IMPLICATIONS

12.1 Contracts resulting from the proposal chosen 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, or not, 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. Legal comments on the use of frameworks will be sought if required and the position on EU requirements will be resolved prior to tendering.

13. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

13.1 N/A

14. CRIME AND DISORDER IMPLICATIONS

14.1 N/A

15. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

15.1 The use of the CIV would enable a quicker, simpler process

16. BACKGROUND PAPERS

16.1 Report to March 2015 meeting and papers in pension team

Committee: Pension Fund Advisory Committee

Date: 1st December 2016

Agenda item: 5

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 Pension Fund Investment Strategy Review". Members should also note the link between this report and the separate report on Training.

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 28 September 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 enshrined in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force on 1st November 2016 and the London CIV is the vehicle through which London boroughs seek to comply with regulatory requirement.

2. CIV UPDATE

- 2.1 On 2nd December 2016, London CIV will mark its first anniversary of the launch of its first sub-fund. The CIV is continuing to develop more sub-funds across many asset classes to cater for its borough members' need to implement their investment strategies.
- 2.2 The CIV is planning to offer a new sub-fund (The London CIV NW Real Return) from 16 December 2016. The sub-fund will be managed by Newton Investment Management. In addition, two sub-funds (a global equity and UK equity) are proposed in early 2017 to be managed by Newton Investment Management and Majedie Asset Management respectively.

2.3 The CIV is making good progress in the search for global equity managers for four separate lots: Generic Global Equity with 6 different strategies, Emerging Markets, Sustainable Equity and Incubator Managers. The tender attracted over 200 submissions with 58 fund managers making it to the first round of interviews. The outcome of the selection process will be reported to the Committee at the earliest opportunity.

2.4 The CIV anticipates it will have assets under management of circa £3 billion by the end of 2016 and approximately £5.5 billion by the end of 2017. Also, the CIV is taking active steps to beef up its team and internal systems and processes.

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

3.1 The outcome of the on-going review of the Pension Fund investment strategy will support the Committee in developing a pragmatic approach to pooling some assets via the London CIV to strike the right balance between maintaining a strong risk management, performance, cost and governance perspective on the one hand and demonstrating commitment to pooling to comply with the Government's reform of the LGPS on the other.

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 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. The new Regulations clarify how LGPS funds should manage and invest their assets and their relationship with investment pools. The Regulations give the Secretary of State power of Direction to intervene in an administering authority's investment function if it failed to bring forward credible proposals for pooling

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 the Council's ability to have the new allocations and fund managers in place during 2017/18.

10. APPENDICES

None

11. BACKGROUND PAPERS

1. Notes from LB Merton/London CIV officers' meetings
2. London CIV communication – emails (October - November 2016)

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Committee: Pension Fund Advisory Committee

Date: 1st December 2016

Agenda item: 6

Wards: All

Subject: Committee Training

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 that much of this meeting will be devoted to training
- b) To read this report in conjunction with the separate report to this meeting titled "Update on the Pension Fund Investment Strategy Review".

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform the Committee that training will be delivered at this meeting by JLT the investment adviser to the Pension Fund.

2. NEED FOR TRAINING

- 2.1 The Pension Fund investment strategy is currently under review. Members of Pension Fund Advisory Committee require knowledge and understanding to make informed and consistent decisions on complex investment and financial matters with legal and regulatory implications.
- 2.2 The Committee will shortly be required to make decisions on investment strategy. The proposed training will help Members to discharge this duty and further equip them to provide effective governance and monitoring of the investment arrangement of the Pension Fund going forward.

3 SCOPE OF THE PROPOSED TRAINING

- 3.1 The proposed training will focus on investment strategy development including asset classes to be considered in the Pension Fund policy mix and benchmarks.

The training will also cover suggested approach to investment strategy implementation including but limited to mandate development, fund manager procurement and pension fund governance and monitoring.

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. The expenses of the Committee 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 Under the Pensions Act 2004 and the Public Services Pensions Act 2013 pension fund committees are required to have knowledge and understanding of the law on pensions, the role of the committee, scheme funding and investment principles and administration of scheme benefits.

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 N/A

10. APPENDICES

None

11. BACKGROUND PAPERS

11.1 In-house team papers