

# Merton Council

## Pension Fund Investment Advisory Panel Agenda

### Membership

#### Councillors:

Cllr Imran Uddin (Chair)  
Cllr Suzanne Grocott (Vice Chair)  
Cllr Mark Allison

#### Officers:

Geoff Norcott (Pensioner Rep)  
Caroline Holland (LBM)  
Paul Audu (LBM)  
GMB Union Rep

#### Substitute Members:

**Date:** Thursday 3 December 2015

**Time:** 1.14 pm

**Venue:** Committee Rooms, 1st floor, Merton Civic Centre, London Road,  
Morden, SM4 5DX

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).

All Press contacts: [communications@merton.gov.uk](mailto:communications@merton.gov.uk), 020 8545 3181

# **Pension Fund Investment Advisory Panel Agenda**

## **3 December 2015**

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	- 8 <sup>th</sup> March 2016	

### **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.



# Agenda

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## **Pension Fund Advisory Committee Meeting**

**Thursday 3<sup>rd</sup> December 2015 @ 7.00pm**

**Members Cabinet Meeting Room (Cabinet Meeting Room 1<sup>st</sup> floor – Civic Centre)**

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**Distribution:** *Cllr Imran Uddin(Chair), Cllr Suzanne Grocott (Vice Chair), Cllr Mark Allison, Geoff Norcott (Pensioner Rep), Caroline Holland (LBM), Paul Dale (LBM), Paul Audu (LBM), GMB Union Rep*

**Additional Attendees:** None

**Apologies for absence:** Caroline Holland

<b>No.</b>	<b>Agenda Item</b>	
1.	<ul style="list-style-type: none"><li>- Introduction</li><li>- Apologies for absence</li><li>- Members declaration of interest</li></ul>	
2.	<ul style="list-style-type: none"><li>• Minutes of Last Meeting (15.09.15)</li></ul>	
3.	<ul style="list-style-type: none"><li>• Quarterly Performance Review (1 July 2015 – 30 September 2015)</li></ul>	
4.	<ul style="list-style-type: none"><li>• Responsible Investing</li></ul>	
5.	<ul style="list-style-type: none"><li>• Annual Report and Accounts – 2014/15</li></ul>	
6.	<ul style="list-style-type: none"><li>• Update on Investment Adviser Procurement</li></ul>	
7.	<ul style="list-style-type: none"><li>• Update on London CIV</li></ul>	
8.	<ul style="list-style-type: none"><li>• PFAC Work Program 2016/17</li></ul>	
9.	<p><b><u>Any Other business</u></b></p> <ul style="list-style-type: none"><li>• Future meeting dates (quarterly and additional meetings required) The next meeting will be held on 8 March 2016</li></ul>	

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**Attendance:**

Cllr Imran Uddin (Chair)  
Cllr Adam Bush (Vice Chair)  
Cllr Mark Allison  
Paul Dale (Assistant Director of Resources LBM)  
Caroline Holland (CS Director LBM)  
Miriam Adams (Treasury and Insurance Manager),

**Additional Attendees:**

**1.0 MEETING (Part 1)**

- 1.1 Introductions made by Chair
- 1.2 Apologies for lateness:
- 1.3 Apologies for absence: Geoff Norcott (Pensioner Rep)
- 1.4 Members Declaration of Interest - Caroline Holland (Director of Chas)

**2.0 PRESENTATION OF MINUTES OF LAST MEETING (17.3.15)**

- 2.1 Chair requested update report on procurement process. PD referred to two bids being received for the investment adviser role for retendering. Time scale on bids to be circulated and reviewed. Councillor Allison to confirm attendance at presentation meetings.  
**Action:** MA to circulate procurement timeline of investment advisor to Chair

**3.0 PRESENTATION OF AUDITED FINAL PENSION FUND 2014/15 ACCOUNTS AND ANNUAL REPORT**

- 3.1 .CH reported on Pension fund Annual Account. PD referred to accounts showing much better investment performance than the Council had in recent years. Value of the fund has risen from 2013/14 in March 2015.
- 3.2 Cllr Bush queried pension numbers against payroll.  
**Action:** Chair recommended report to go to GP for approval.

**4.0 QUARTERLY PERFORMANCE REVIEW – June 2015 Quarter Ending**

- 4.1 PD presented report. Property was the only asset class that performed over benchmark. Performance was 0.2% behind benchmark for the quarter and on a year to date benchmark was 0.6% underperformed.

## **5.0 ASSET ALLOCATION PROCUREMENT - Update**

- 5.1 Contract with Allenbridge Epic has ended. Priority to get Investment Pensioners Adviser for retendering completed and then procure an Independent Investment Adviser. Chair advised unable to commit to 29<sup>th</sup> and 30<sup>th</sup> September or 1<sup>st</sup> October.so alternative dates were to be sought. CH noted that the fund is struggling to get people on the pensions board and confirmed waiting outcome of union meeting.  
**Action:** PD will check on union representation at panel meeting

## **6.0 MEMBERSHIP PERFORMANCE MONITORING 30.6.15**

- 6.1 Report presented by CH. Membership increased by 95. There has been a few ill health retirements and death, shortly after leaving side and in service.
- 6.2 Merton College transfer completed. HR contract with Sutton to end soon. Notice for May 2016.which will have pension fund implications

## **7.0 UPDATE ON LONDON CIV**

- 7.1 Report presented by PD. Concerns raised about CIV timescales. Merton procurement going on in parallel
- 7.2 Chair noted that once the Adviser in place, there needs to be discussions on which funds to use the CIV for. The fund has a duty to maximise investments.
- 7.3 Discussion on CIV paper and structuring the fund for launch. Payments to the CIV should come from pension fund.

## **8.0 ANNUAL ACTUARIAL UPDATE at March 2015**

- 8.1 Report presented by PD. Valuation in 2013 89%, but risen to 94% in March 2015. In terms of future contribution this funding level is ahead of the deficit plan although caution should be taken because of deficit cost increases. 6 months to the next valuation.

## **9.0 RISK REGISTER**

- 9.1 CH noted two new risks. Pension board membership take up still a concern.  
**Action:** CH to check at Treasurers meeting. Pension Board membership should be 50/50 employer side and membership side. MD of CHAS can be recruited as fall-back position. Chair asked if other avenues can be looked into to recruit members to join the Pension Board.
- 9.2 **Action:** Chair requested officers continue to search and requested paper for PFAC which states efforts of fund has made to recruit for solutions and what can be done.
- 9.3 **Action:** PD to research recruitment of Pension Representatives by other Boroughs

**10.0 ANY OTHER BUSINESS**

10.1 Procurement Process – PD to brief Chair with updates, prior to 3<sup>rd</sup> December PFAC meeting.

10.2 Annual report to be circulated for comments. Chair to feedback to CH

**Date of Next Meetings:**

3<sup>rd</sup> December 2015

8<sup>th</sup> March 2016

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## London Borough of Merton Pension Fund Advisory Committee

**Date: 3<sup>rd</sup> December 2015**

Agenda item: 3

Wards: All

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

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

Contact officer: Paul Dale

This is a Public Document

### **RECOMMENDATION**

Members are asked to note the market values of the total fund and component parts for the quarter ending 30 September 2015, and attribution of the results.

### **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 September 2015.
- 1.2 This report is intended to give the Committee a basis on which to review performance of the Fund as at 30 September 2015 and provide information to support future actions including periodic rebalancing and strategic review.

### **2.0 PERFORMANCE REPORT**

- 2.1 The Fund Analysis & Performance Report produced by WM Performance Services (attached) provides useful analysis and insights.
- 2.2 The report highlights the performance of the total Fund by asset class against the customised Fund benchmark. It also includes an analysis of the performance of each manager against their specific benchmark and a comparison of performance over time.
- 2.3 At 30 September the total Fund was valued at £495.3m (includes internal cash deposits) down by £25.8m or 4.9% during the quarter.

### **3.0 MARKET BACKGROUND/OUTLOOK**

- 3.1 Global markets were volatile during the quarter with mining and commodity sectors worst affected. In September, the Federal Reserve (the Fed) left interest rates on hold in spite of market expectations of a rise. An unexpected devaluation in the Yuan and weaker-than-expected data releases stoked fears

that China's economic growth was likely to slow at a much faster-than expected rate.

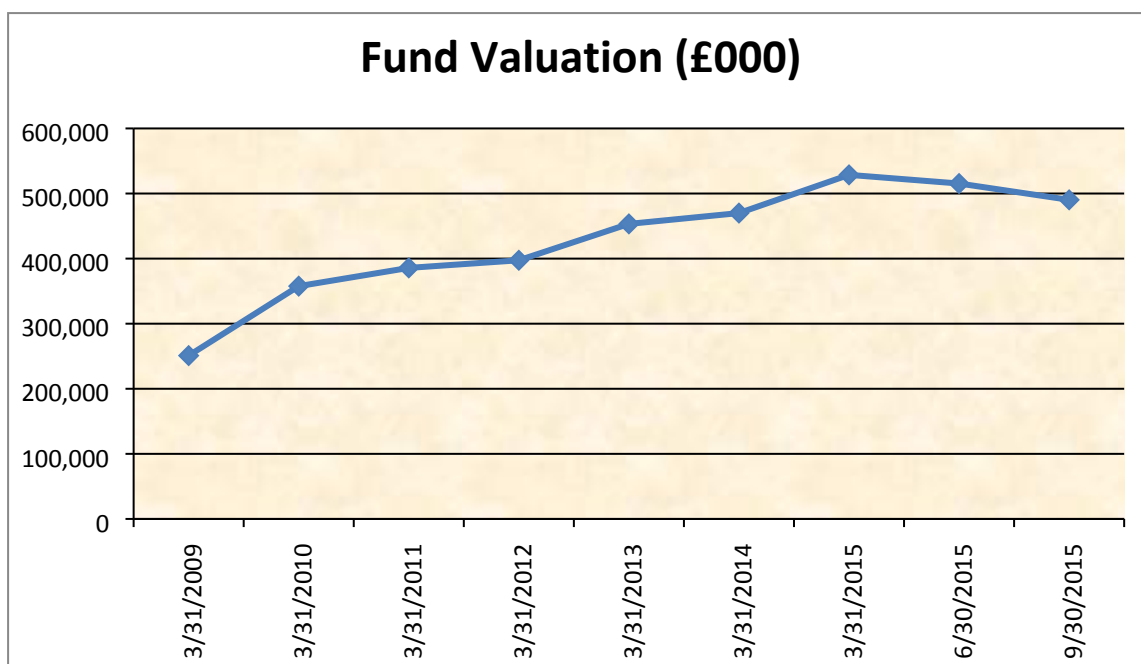
- 3.2 The outlook for the UK economy, meanwhile, remained fairly positive amid speculation that the Bank of England could follow the Fed's lead and postpone its first interest rate increase in nearly a decade. In other developed markets, the fragile Eurozone economic recovery appeared to be on track, while the European Central Bank and the Bank of Japan continued monetary easing.

#### 4.0 PERFORMANCE OF THE FUND

- 4.1 The following table shows the Fund strategic asset allocation as at 30 September 2015 compared to the benchmark allocation.

At 30/09/2015	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
<b>Fund Asset Allocation</b>	71.0	25.3	0.3	3.3	100.0
<b>Fund Benchmark</b>	67.9	26.7	0	5.3	100.0

- 4.2 The Fund underperformed the benchmark by 0.7% for the quarter ending 30 September 2015. It gained -4.0% against the benchmark return of -3.3% for the period. Underperformance during the period was attributed to stock selection (-0.4%) and asset allocation (-0.3%), the former being manager contribution and the latter ascribed to the Fund's strategic decision.
- 4.3 On a year-to-date basis the Fund underperformed its benchmark by 1.1%. The Fund produced 0.9% compared to benchmark return of 2.0%. Over 3 years, the Fund trailed the benchmark with a return of 7.2% versus 8.1% respectively.
- 4.4 In monetary terms, the negative return of -0.7% decreased the market value of the Fund by £20.4m during the quarter.
- 4.5 The graph below illustrates the Fund market value trend between 31 March 2009 and 30 September 2015. It shows that the Fund has grown significantly by £239m over the 7 ½ year period.



4.6 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 30/6/15 £000	Capital Gain/loss £000	Income £000	Market Value 30/09/15 £000	% of Total Fund
<b>UBS Passive Equity</b>	218,587	-13,134	924	206,405	42
<b>Aberdeen Fixed Income</b>	120,562	3,901	38	124,352	25
<b>Aberdeen Active Equity</b>	100,303	-9,047	507	91,761	19
<b>UBS Active Equity</b>	54,774	-4,502	465	50,856	10
<b>UBS Property</b>	10,171	242	105	10,408	2
<b>BlackRock Property</b>	6,323	137	25	6,512	1
<b>Total External Fund</b>	<b>510,720</b>	<b>-22,404</b>	<b>2,063</b>	<b>490,294</b>	<b>100</b>
<b>Internal Cash from Contributions</b>	10,400			5,000	
<b>Total</b>	<b>521,120</b>			<b>495,294</b>	

4.7 The Fund assets are well diversified across sectors, markets and geographies. During the quarter ending September 2015, equities finished the quarter in negative territory. Fixed income investment in aggregate, yielded only small positives.

4.8 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 2015	Sept 2015	Sept 2015 %	Sept 2015 %
UK Equities	224,444	210,133	-6.6	-5.7
Overseas Equities	148,670	138,171	-6.6	-6.9
• North America	51,484	49,221	-3.6	-3.5
• Continental Europe	40,590	38,529	-5.0	-4.5
• Total Far East	41,194	36,916	-10.0	-10.0
• Other Intl Equities	15,402	13,505	-12.0	-15.0
UK Bonds	29,836	31,325	4.0	4.0
Overseas Bonds	29,471	31,137	4.4	4.7
UK Index-Linked	61,217	61,856	2.4	2.3
Cash Alternatives	1,187	1,347	-4.2	n/a
Property	15,895	16,326	3.3	3.3
<b>Total</b>	<b>510,720</b>	<b>490,294</b>	<b>100</b>	<b>100</b>

## 5.0 FUND MANAGER PERFORMANCE

### UBS

5.1 UBS manages three portfolios for LB Merton Pension Fund.

#### (1) UBS – Global Equity (Active)

5.2 Closed at a market value of £50.9m (June 2015 £54.8m).

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

UBS Active Equity	30/06/2015		Purchases	Sales	Gain/Loss	Income	30/09/2015	
	£000	%					£000	£000
Total Equities	54,252	99	6,627	5,920	-4,442	525	50,517	99
Cash & Cash Alternatives	522	1	6,445	6,568	-60	0	339	1
<b>Total</b>	<b>54,774</b>	<b>100</b>	<b>13,072</b>	<b>12,488</b>	<b>-4,502</b>	<b>465</b>	<b>50,856</b>	<b>100</b>

- 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>	-7.4	-7.0	-0.4	Underperformed
<b>Last 12 months</b>	-4.2	-3.7	-0.5	Underperformed
<b>Last 3 years</b>	6.4	6.6	-0.2	Underperformed
<b>Last 5 years</b>	5.5	5.8	-0.3	Underperformed

**(2) UBS - Global Equity (Passive)**

5.3 Closed at market value of £206.4m (£218.6m June 2015).

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

<i>UBS Passive</i>	<b>30/6/2015</b>		<b>Purchases</b> £000	<b>Sales</b> £000	<b>Gain/ Loss</b> £000	<b>Income</b> £000	<b>30/09/2015</b>	
	£000	%					£000	%
<b>UK Equities</b>	121,427	55	2,396	1,578	-7,869	952	114,377	55
<b>North America</b>	45,532	21	0	450	-1,595	0	43,487	21
<b>Continental Europe</b>	25,697	12	0	0	-1,142	0	24,555	12
<b>Japan</b>	13,561	6	0	0	-1,079	0	12,481	6
<b>Total Pacific (ex Japan)</b>	12,678	6	450	0	-1,449	0	11,678	6
<b>Cash &amp; Alternatives</b>	-307	0	4,511	4,378	0	0	-173	0
<b>Total</b>	<b>218,587</b>	<b>100</b>	<b>7,357</b>	<b>6,406</b>	<b>-13,134</b>	<b>924</b>	<b>206,405</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	-5.6	-5.6	0	In line
Last 12 months	-0.7	-0.7	0	In line
Last 3 years	9.0	8.9	0.1	Outperformed
Last 5 years	7.9	7.9	0	In line

### (3) UBS - Property Fund (Triton)

5.4 Closed at a total market value of £10.4m (£10.2m in June 2015).

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

<i>UBS Triton (Property)</i>	30/06/2015		Purchases	Sales	Gain/Loss	Income	30/09/2015	
	£000	%					£000	£000
<b>Property</b>	9,572	94	0	0	242	105	9,813	94
<b>Cash &amp; Cash Alternatives</b>	599	6	-4	0	0	0	595	6
<b>Total</b>	<b>10,171</b>	<b>100</b>	<b>-4</b>	<b>0</b>	<b>242</b>	<b>105</b>	<b>10,408</b>	<b>100</b>

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

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
<b>Last 3 months</b>	3.4	3.0	0.4	Outperformed
<b>Last 12 months</b>	15.0	14.4	0.6	Outperformed
<b>Last 3 years</b>	8.7	11.7	-3.0	Underperformed
<b>Last 5 years</b>	7.3	8.8	-1.5	Underperformed

UBS Triton produced a total return of 3.4% in the current quarter, comprising capital and income returns of 2.6% and 0.8%, respectively.

### Aberdeen Asset Management

5.5 Aberdeen manages two portfolios for the LB Pension Fund.

#### (1) Aberdeen – Global Equity

5.6 Closed at a market value of £91.8m (June 2015 £100.3m).

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

<i>Aberdeen Active Equity</i>	30/6/2015		Purchases	Sales	Gain/ Loss	Income	30/09/2015	
	£000	%					£000	£000
<b>UK Equities</b>	54,761	55	3,705	2,887	-5,087	450	50,492	55
<b>North America</b>	5,952	6	70	0	-288	2	5,734	6
<b>Continental Europe</b>	14,893	15	0	0	-919	25	13,974	15
<b>Japan</b>	8,646	9	0	600	-762	35	7,284	8
<b>Total Pacific (ex Japan)</b>	6,310	6	0	0	-837	30	5,473	6
<b>Other Intl Equities</b>	9,407	9	0	0	-1,156	44	8,251	9
<b>Cash &amp; Alternatives</b>	334	0	9,027	8,810	2	1	552	1
<b>Total</b>	<b>100,303</b>	<b>100</b>	<b>12,802</b>	<b>12,297</b>	<b>-9,047</b>	<b>507</b>	<b>91,761</b>	<b>100</b>

- 5.7 Although this portfolio is an active mandate 33% is held in pooled funds. The manager is required to outperform the benchmark by 1.25% p.a. over rolling 3-year periods.

This table shows the performance of the portfolio

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	-8.5	-7.0	-1.6	Underperformed
Last 12 months	-4.5	-2.5	-2.0	Underperformed
Last 3 years	5.2	7.0	-1.7	Underperformed
Last 5 years	6.2	5.7	0.5	Outperformed

## (2) Aberdeen – Global Bond

- 5.8 Closed at a market value of £124.4m (June 2015 £120.6m).

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

Aberdeen (Bonds)	30/6/2015		Purchases £000	Sales £000	Gain/ Loss £000	Income £000	30/09/2015	
	£000	%					£000	%
UK Bonds	29,836	25	299	0	1,189	27	31,325	25
Overseas Bonds	29,471	24	359	0	1,308	15	31,137	25
UK Index Linked	61,217	51	0	769	1,409	31	61,856	50
Cash & Alternatives	38	0	659	658	-5	0	34	0
<b>Total</b>	<b>120,562</b>	<b>100</b>	<b>1,317</b>	<b>1,427</b>	<b>3,901</b>	<b>38</b>	<b>124,352</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	3.3	3.3	0	
Last 12 months	8.9	9.6	-0.7	Underperformed
Last 3 years	6.4	6.4	0.0	Underperformed
Last 5 Years	6.7	7.2	-0.4	Underperformed

## BlackRock - Property

5.10 Closed at a market value of £6.5m (June 2015 £6.3m)

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

<i>Blackrock</i>	30/06/2015		Purchases	Sales	Gain/Loss	Income	30/09/2015	
	£000	%	£000	£000	£000	£000	£000	%
<b>Property</b>	6,323	100	52	0	137	40	6,512	100
<b>Cash &amp; Cash Alternatives</b>	0	0	52	52	0	-15	0	0
<b>Total</b>	<b>6,323</b>	<b>100</b>	<b>104</b>	<b>52</b>	<b>137</b>	<b>25</b>	<b>6,512</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
<b>Last 3 months</b>	2.6	3.0	-0.4	Underperformed
<b>Last 12 months</b>	10.7	14.4	-3.2	Underperformed

## 6. OTHER ISSUES AFFECTING THE FUND

6.1 Review of the pension fund investment strategy and investment management arrangements is proposed. An update report on the procurement of investment adviser via a competitive tender process 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. REGULATORY AND SPECIFIC LEGAL MATTERS

8.1 All relevant implications are included in the report.

## 9. COMPLIANCE WITH COUNCIL POLICIES EXTRANEIOUS TO PENSION PROVISION

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. WM Performance Report for Periods to 30 September 2015

**12. BACKGROUND PAPERS**

12.1 StateStreet Analytics performance report and individual fund managers' investment reports

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

**Date: 3 December 2015**

Agenda item: 4

Wards: All

### **Subject: RESPONSIBLE INVESTING**

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.

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

- 1.1 Pension funds' investment in commodities including gas, oil and other fossil fuels and armaments have been the subject of analysis, debate and numerous requests for information under Freedom of Information. Pension funds' exposure to companies operating in these sectors have been scrutinised since the correction in share prices made headline news earlier this year.
- 1.2 The purpose of this report is to discuss the issues and the previously agreed position of the Committee in respect to the investment strategy and approach to the management of Merton Pension Fund investments.

## **2. THE ISSUES**

- 2.1 Campaigners are calling on pension funds to divest from companies in the mining, oil, gas and the wider energy sector. They point to the current low share prices and profitability of such companies. Also, they argue for a cut in fossil fuel consumption to slow the pace of climate change and reduce the influence of powerful companies.
- 2.2 Others believe that divestment is ill-advised. They argue that pension funds would miss out on vital return on their investment and expose themselves to greater risk by restricting their ability to diversify.
- 2.3 The Statement of Investment Principles (SIP) states that the authority has statutory responsibility and fiduciary obligation to ensure that investments are

in the best financial interests of members of the fund, taking into account the appropriate level of risk.

### **3. ADVICE OF COUNSEL**

3.1 Counsel opinion is that the Committee would be acting in breach of its fiduciary duty if based solely on social, ethical and environmental reasons it used negative screening to exclude particular investments.

3.2 In serving the pension fund beneficiaries' best financial interests, the Committee should give less weight to their personal views or any externally generated policies and should pursue the best financial return at the desired level of risk.

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

6.1 Please see 3 above.

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

7.1 Please see 3 above.

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

8.1 N/A

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

9.1 N/A

### **10. APPENDICES**

1. Note of Counsel Advice – 12 April 2013 (Confidential)

**11. BACKGROUND PAPERS**

2. Statement of Investment Principles – approved by PFAC on 23 June 2014
3. UK local council pensions lose £683 million with coal crash - Blue and Green Tomorrow

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

**Date: 3 December 2015**

Agenda item: 5

Wards: All

**Subject: ANNUAL REPORT AND ACCOUNTS – 2014/15**

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
- b) Note the audited 2014/15 Pension Fund Annual Report and Accounts included as Appendix A to this report.
- c) Note that the audited 2014/15 Pension Fund Annual Report and Accounts will be published on the Council's website by no later than 1 December 2015.

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

- 1.1 London Borough of Merton as administering authority of the Merton Pension Fund is the reporting authority for the Pension Fund.
- 1.2 The draft Annual Report and Accounts was presented to the Pension Fund Advisory Committee at its meeting on 23 June 2015.
- 1.3 The audit was carried out by Ernst & Young.
- 1.4 Under the LGPS regulations, administering authorities are required to publish an annual report after the statutory external audit of the financial statement which must comply with current regulations and CIPFA guidance. The annual report must be published before 1 December following the year end. The Merton Pension Fund Annual Report and Accounts will be published on the Council's website.

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

- 2.1 All relevant financial and risk implications have been included in the fund report and accounts at Appendix A to this report.

**3. REGULATORY AND SPECIFIC LEGAL MATTERS**

- 3.1 The Pension Fund Annual Report and Accounts do not contain any qualifications or recommendations.

**4. COMPLIANCE WITH COUNCIL POLICIES EXTRANEEOUS TO PENSION PROVISION**

- 4.1 The pension arrangements are consistent with Council policies.

**5. CRIME AND DISORDER IMPLICATIONS**

- 5.1 N/A

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

- 6.1 N/A

**7. APPENDICES**

Audited Pension Fund Annual Report and Accounts 2014/15

**8. BACKGROUND PAPERS**

1. Audited Pension Fund Annual Report and Accounts 2014/15
2. Report to the Pension Fund Advisory Committee on 23 June 2015



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

**Date: 3 December 2015**

Agenda item: 6

Wards: All

## **Subject: UPDATE ON INVESTMENT ADVISER PROCUREMENT**

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.

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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 procurement process for the appointment of an investment adviser to assist with the proposed review of the pension fund investment strategy and selection of fund managers through a competitive OJEU process.
- 1.2 Final interviews with bidders were held on 21 October 2015, following the evaluation of the bidders' final submissions by officers.
- 1.3 Bidders have been informed about the outcome of the tender and at the end of a 10-day standstill period the Council will enter a contract with the successful bidder.

## **2. NEXT STEPS**

- 2.1 Officers have commenced a review of the pension fund custody arrangement prior to initiating a search for a global custodian via a competitive framework process.
- 2.2 It would be prudent to appoint a global custodian before the selection of fund managers. The global custodian will play a key role in the event of any portfolio transitions between fund managers.

- 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 Review the option to access fund managers through London Collective Investment Vehicle (CIV) and terms.
- 2.5 Draft fund manager tender documents for the OJEU process.

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

- 3.1 Discussion is on-going about which of the procurements detailed above would require 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 investment consultants 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 procurement process. This will be charged to the pension fund.

**7. REGULATORY AND SPECIFIC LEGAL MATTERS**

7.1 Procurement has been carried out through competitive OJEU process.

**8. COMPLIANCE WITH COUNCIL POLICIES EXTRANEIOUS TO PENSION PROVISION**

8.1 Please see 7 above.

**9. CRIME AND DISORDER IMPLICATIONS**

9.1 N/A

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

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

**11. APPENDICES**

None

**12. BACKGROUND PAPERS**

1. Award of Contract for the Provision of Pension Investment Services

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

**Date: 3 December 2015**

Agenda item: 7

Wards: All

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

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

This document is a public document

### **Recommendations:**

- a) Note the content of this report. The report is related to a separate report to this meeting titled "Update on Investment Adviser Procurement"

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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 15 September 2015, information on the CIV's upcoming Fund launch and the current suite of fund managers and future plans to expand its offering.
- 1.2 London LGPS CIV Ltd received Financial Conduct Authority (FCA) authorisation on 15 October 2015 and its first fund was authorised by the FCA on 13 November 2015. The CIV is the first full scope Alternative Investment Fund Manager (AIFM) in local government and the first of its kind in the UK pensions industry to gain regulatory approval and paves the way for London LGPS funds to commence pooling their assets.
- 1.3 The CIV is inviting specific investment decisions from its 31 borough members to transfer their investments to the new fund for the launch of phase 1 in December 2015.

## **2. NEXT STEPS**

- 2.1 The sub-funds proposed for the launch in phase 1 (December 2015 to March 2016) and the appointed fund managers are shown in the table below:

Manager	LGIM	LGIM	LGIM	Blackrock	Blackrock	Blackrock	Baillie Gifford	Baillie Gifford	Allianz	Total
Sub Fund(s)	World Devel. ex UK	UK Equity Index	World Emerging Markets Eq Index	World Devel. ex UK	UK Equity Index	World Emerging Markets Eq Index	Global Alpha Fund	Diversified Growth Fund	Global Equity High Alpha	9
AUM	£1,544,493,212	£1,101,658,699	£162,243,095	£652,663,901	£422,813,594	£155,341,753	£1,113,921,440	£319,823,905	£525,004,960	£5,997,964,559

Source: London CIV

- 2.2 The above arrangement would provide about 20 boroughs initial opportunity to pool investments across 9 sub-funds consisting of 6 passively managed equity funds with assets of about £4.2bn, 2 actively managed global equity portfolios of circa £1.6bn and a Diversified Growth Fund (DGF) valued in the region of £300m. The first of the 9 funds will launch with £510m from three boroughs including Wandsworth. The active global equity portfolio will be managed by Allianz Global Investors.
- 2.3 The CIV anticipates introducing additional mandates and fund managers for the next phase.
- 2.4 London CIV have advised that Counsel opinion states that participating boroughs will not need to conduct procurement to invest via the CIV by virtue of specific exemption in the public procurement regulations.
- 2.5 Ten boroughs (including Merton) do not currently have exposure to any of the sub-funds specified above in paragraph 2.1. However, the funds can be accessed immediately by all CIV members.

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

- 3.1 Not applicable at this stage.

### 4. **LONDON BOROUGH OF MERTON'S PAYMENTS TO LONDON CIV**

- 4.1 Since 2014, L.B Merton has made payments to London CIV as follows:
- October 2015           £25,000
  - January 2015           £25,000
  - January 2014           £25,000

- 4.2 In November 2015, L.B Merton subscribed for 150,000 B Non-voting Shares of £1 each in the capital of the company (London LGPS CIV Limited) at a cost of £150,000.

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

- 5.1 N/A

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

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

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

- 7.1 The Government published its long-awaited response to the consultation on Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies on 25 November 2015.
- 7.2 The Government supports the view of the majority of the respondents that asset allocation decision should remain with local administering authorities and that savings can be delivered through asset pooling, and in particular collective investment vehicles.
- 7.3 The Government is minded to pursue a localised approach to reform. Administering authorities are asked to determine the most efficient way to pool their assets and with whom to partner.
- 7.4 A consultation, Revoking and replacing the LGPS Management and Investment of Funds Regulations 2009 has been launched on draft regulations aimed at reforming the investment regulations and introduce a power of intervention to allow the Secretary of State to intervene in an administering authority's investment function if it failed to bring forward credible proposals for pooling. The consultation is open until 19 February 2016.

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

- 8.1 Please see 7 above.

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

- 9.1 N/A

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

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

**11. APPENDICES**

None

**12. BACKGROUND PAPERS**

1. London CIV Briefing Paper – November 2015
2. London Council's Press Release – 23 November 2015
3. London Pension Schemes to Pool £25bn – FT 23 November 2015
4. DCLG Consultation Response – 25 November 2015
5. Update on London CIV – Report to the Pension Fund Advisory Committee on 15 September 2015



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

**Date: 3 December 2015**

Agenda item: 8

Wards: All

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

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact officer: Paul Dale

This document is a public document

### **Recommendations:**

- a) Note the content of this report.

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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.
- 1.2 Officers propose to submit a draft Work Programme for the Committee for 2016/17 for consideration and approval at its next meeting to be held on 8 March 2016.
- 1.3 The Work Programme would ensure that all relevant matters are covered during the year.

## **2. PROPOSED WORK PROGRAMME**

- 2.1 It is proposed that the Work Programme would be develop around the following key subject areas:
  - A. Governance
  - B. Administration
  - C. Investment
  - D. Finance
  - E. Training; and
  - F. Pension Board

2.2 The proposed Work Programme would form the Committee's agenda for 2016/17 and provide the framework to monitor its own effectiveness.

**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**

None