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 ACTUARIALVALUATION

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