

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 5th 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 28th September meeting at the earliest or 1st 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 30th June and external auditors report by early September 2016.
- 4.2 PFAC to approve audited pension fund annual report and accounts at the 6th September meeting prior to SGPC.

Action: PA to amend Work Programme to include 6th 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 28th September.

8.0 MERTON PENSION BOARD (Verbal update)

- 8.1 PA advised that Merton Pension Board held its first meeting on 5th 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:

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

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