# LONDON BOROUGH OF SOUTHWARK PENSION FUND
## PENSIONS ADVISORY PANEL

<table>
<thead>
<tr>
<th>Date:</th>
<th>25th November 2013</th>
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<tbody>
<tr>
<td>Chair Person:</td>
<td>Richard Livingstone</td>
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<td>Time:</td>
<td>2 p.m.</td>
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<td>Venue:</td>
<td>London Borough of Southwark 160 Tooley St, London, SE1 2TZ</td>
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<td>Notes of meeting:</td>
<td>Caroline Watson</td>
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Attendees: Duncan Whitfield; Eliza Mann (EM); Toby Eckersley; Chris Cooper; Chris O’Brien; Carl Rushbridge; Pauline Birbal; Yvonne Thompson-Hoyte; David Cullinan; Emily McGuire (EMCG).

## Item No | Item
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1 | Apologies: Dave Howes
2 | Disclosures of Interest & Dispensations
   | None.
3 | Matters Arising
   | Minutes of previous meeting – agreed
4 | Training – noted that 2 out of the 3 training sessions have now taken place. Meets knowledge and skills framework requirements.
5 | WM Performance Report
   | David Cullinan

- Strong equity markets across board. Returns of 2-4% for average fund in latest quarter.
- Property values starting to come back up. Bond returns more subdued. P5 – fund performance in line with benchmark. Underweight in property had a marginal negative impact in quarter.
- Outperformance from asset allocation and stock selection. Strong absolute returns over 1 and 3 years. Newton’s underperformance due to markets not favouring their strategy.
- RL: p31 – lost £1m through redemption in Europe. Anti dilution levy of 30% of holding applied. 3 year rolling underperformance evaporating.
6 Aon Hewitt
Emily McGuire

Investment Update

- Underperformance of 0.1% vs. 1.2% benchmark: nearly 10% of fund in cash – defensively set up portfolio. Newton does better when market falls.
- TE: is 10% maximum cash constraint appropriate? EMCG: yes, but they haven't been at this high level before. Require equity return so wouldn't have a higher cash allocation than 10%.
- P9 – HGI performance trailed IPD over quarter. Virtually all underperformance attributable to Aberdeen holding. Returns driven by income over last year. Capital values now growing. HGI – difficulty in purchasing new assets re price they are willing to pay. As part of strategy review, look at taking on more construction risk. RL – through CIVs? DW: missing out on bigger property purchases. Pooled funds would give us access to larger purchases.
- BlackRock looking to expand range of funds on offer. Income distributing funds of interest going forward. Potential to receive income without selling down assets.

Investment Strategy Paper

- Current strategy 60% equities, 20% property, 20% bonds.
- Assess whether asset allocation still appropriate going forward. Objectives – how much return over 5.4% do we need to achieve to clear deficit.
- Opportunities to introduce new asset classes. Refine existing mandates – e.g. within bond portfolio, focus on mandate with more capital preservation rather than tracking index; right mix of equities between emerging and developed world and between active and passive equities.

7 London Fund Merger/Collective Investment Vehicles Update

- Exercise to review call for evidence going forward. Looking at following options:
  1. single CIV for England and Wales
  2. 5-10 CIVs for England and Wales
  3. 5-10 merged funds

- In options 1 and 2 individual funds would have own investment strategy and power of asset allocation.
- Paper has gone to London Councils on CIV for London funds.
- Lot of work to be done on structures and how it will work in practice.
- 20 London boroughs have agreed to formally commit to contribute
to setup costs.

- Will take most of 2014 to establish CIV. Passive funds first – 25% of assets in London invested passively. Therefore benefit from economies of scale.
- CIV will be a much better way of accessing property and infrastructure and will allow access to more opportunities.
- TE: keep PAP advised of details of cost of CIV and when money has been drawn down.
- Paper from pensions working group on setup costs to be distributed to PAP members.
- DW: government may target lowest performers or force towards being in a collective if logic around better returns and fees.

8 Customer Survey Paper

- Members haven’t been surveyed yet. Paper is just suggestion re questions to be asked.
- DW: scheme members don’t have constitutional rights to be asked investment specific questions. Should be more general – e.g. do they get their cheques on time etc.
- CC: not sure how good it is to ask members these types of questions. More things to sort out, but if we are to do it, then it needs to be more structured.
- TE: agrees with CC. A lot of thought needed into questions and more explanation needed. Also more education into impact. Need a debate about questions.
- DW: leave for staff to revise. Maybe coincide with asset review.

9 Actuarial Valuation – Tim Lunn, Aon Hewitt

- 2010 funding strategy – probability of success 65%, 78% funded
- 2014 scheme: 2 features which bring savings – change in state pension age (bulk of saving) and 50/50 option.
- Savings age dependant – younger members result in bigger savings
- CPI to RPI difference much larger 2013 compared to 2010 (2010 CPI relatively new and research now available which wasn't available then)
- Discount rate primary adjuster to set level of risk.
- Probability of funding success 73% (65% in 2010)
- Pulling in risk budget. Focus is on solvency and smoothness of rates. Consistent with regulations.
- P9 – increase in scaling factor for females. No change to males.
- Fund more mature. 3 years ago active liabilities much higher.
- Past service deficiency has come down in cash terms. But because everything else has gone up in proportion, funding ratio has increased.
- P14 – future service rate similar to 2010.
- Recovery plans subject to scrutiny from National Scheme Advisory Board.
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|         | **Options re future service rate for Council:**  
|         | (i) 13.4% - 18/19 year recovery period  
|         | (ii) Continue with current rate of 13.1% - 20 year recovery period  
|         | (iii) Higher than 13.4% - reduce recovery period further.  
|         | DW: anything that looks like a lower rate looks like a payment holiday. On these margins, recommend hold line and don’t make changes. Don’t want to create worse position unnecessarily at future valuations. Budget pressures in 2015/16 – look at past service contributions. PAP would seek actuarial advice on this.  
|         | • P21 – Globe doing well compared to others, but need to be cautious about decreasing rates as surplus can disappear very quickly.  
|         | • P22 – New contractors since 2010 – decision needed re fixed contribution rates. P23 – decision also required.  
|         | • Academies – decision required on pooling academies. RL-discussion at next meeting.  
|         | • Finalising valuation – won’t lock in until budget decided in January/February.  
| 10      | Ethical Investment Policy  
|         | • EM: Seems to be more discussion within fund managers e.g. BlackRock citing in Aon Hewitt investment report.  
|         | • CC: Environment agency exclude tobacco – look how they do it.  
| 11      | AOB  
|         | Newton Stock Lists – noted  
| 12      | Date of next meeting – 18th February at 10am.  

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