

# Merton Council

## Pension Fund Investment Advisory Panel Agenda

### Membership

#### Councillors:

Cllr Philip Jones (Chair)  
Cllr Adam Bush (Vice Chair)  
Cllr Mark Allison

#### Officerd:

Gwyn Isaac (GMB Union Rep)  
Tina Pickard (Pensioner Rep)  
Caroline Holland (LBM)  
Roger Kershaw (LBM)  
Paul Audu (LBM)

**Date:** Thursday 7 September 2017

**Time:** 7.00 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**

## **7 September 2017**

- 1 Apologies for absence
- 2 Declarations of pecuniary interest
- 3 Minutes of Previous meeting 1 - 4
- 4 Draft Annual Report and Accounts 2016/17 5 - 8
- 5 Future meeting dates  
6<sup>th</sup> December 2016  
7<sup>th</sup> March 2018

### **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 Adam Bush (Vice Chair)  
Cllr Mark Allison  
Caroline Holland (Director of Corporate Services LBM)  
Tina Pickard (Pensioner Rep - Unison)  
Paul Audu (Interim Head of Treasury and Pensions)

**Additional Attendees:** Aniket Bhaduri (JLT)

### **1. MEETING**

- 1.1 Welcome and Introduction by Chair
- 1.2 Apologies for lateness: None
- 1.3 Apologies for absence: Paul Dale (Assistant Director of Resources); Gwyn Isaac (GMB Union Rep)
- 1.4 Members Declaration of Interest – Adam Bush (Employee of BDO who are tendering for Council business)

### **2. PRESENTATION OF MINUTES OF LAST MEETING (1.12.16)**

- 2.1 The key actions were:
  - JLT to provide training to the Committee to support Members' decision-making during the strategy development phase and during the implementation process.
  - Officers to update the Committee on the development of the London CIV.

### **3. QUARTERLY PERFORMANCE REVIEW (1<sup>st</sup> October – 31<sup>st</sup> December 2016)**

- 3.1 The market value of the Fund was £622.4m at the end of December 2016 up by £13.2m from the end of September 2016. Total Fund return was 2.1% marginally underperforming the benchmark return of 2.4% with total performance largely attributable to stock selection.
- 3.2 PA gave a potted overview of the performance report mindful of JLT's attendance at the meeting to present the strategy report and draft Investment Strategy Statement (ISS) to the Committee. During the quarter, equities and property produced positive returns unlike bonds.
- 3.3 The Fund continued to benefit from unhedged overseas exposure due to the weak Sterling. He said all investment portfolios bar the active global equity portfolio managed by UBS had underperformed during the quarter and that JLT might contextualise the Fund performance in their presentation.

#### 4. PRESENTATION BY JLT

The Chair welcomed Aniket Bhaduri (AB), Lead Consultant from JLT to the meeting and invited him to present the Investment Strategy Review Report.

- 4.1 AB began by discussing the objectives of the investment strategy review exercise and the types and impact of the investment decisions the Committee would be expected to make. He said the current investment strategy pursued by Merton Pension Fund was inefficient and he used the efficient frontier graph to illustrate the point and to emphasise the relationship between risk and return.
- 4.2 There was some discussion and high-level update by AB on JLT's outlook on global markets, geo-politics and economies. The Committee touched on the approach and inherent challenge of monitoring allocations.
- 4.3 AB gave an overview of JLT's modelling of the Pension Fund liabilities. The key points being that the duration of the Fund's liabilities was about 14.2 years and almost all of the liabilities are sensitive to inflation. On a roll-forward basis, the funding level was estimated to be roughly 102.4% as at the end of December 2016.
- 4.4 There was some discussion on discount rates and AB explored the Fund actuary's valuation assumptions and JLT's expected return estimates with the Committee. The Committee sought to understand the contrasting elements between JLT's and the Fund actuary's return estimates.
- 4.5 AB skipped to the investment strategy modelling results. He tabled an additional slide titled "Stochastic Projections – Impact Through Different Scenarios". He advised that the current allocation was incompatible with the Fund actuary's return assumption.
- 4.6 AB recommended changing the strategic split between Growth assets and Stabilising assets from 75:25 to 80:20 respectively. This was likely to improve the expected return whilst reducing the Deficit Risk or Value at Risk. The Committee asked whether the Fund actuary had been consulted. PA confirmed that JLT carried out the required modelling in consultation with the Fund actuary.
- 4.7 There was lengthy discussion about the makeup of the potential strategies. AB focussed the Committee's attention on the recommended strategic allocation. He gave the Committee deeper insights into the new asset classes such as Diversified Growth Funds (DGFs), Multi Asset Credit (MAC) and Private Credit. In particular, he advised that MAC had different sensitivity to interest rates compared to traditional fixed income assets. Also, he advised that Private Credit should be implemented in the short-term subject to suitable products available via the London CIV or alternatively via collaboration with other London Boroughs.
- 4.8 AB broadly discussed interim measures vis-à-vis restructuring the incumbent managers' mandates. He said the suggested actions would help to simplify and improve transparency in the existing portfolios. During the discussion, AB

mentioned the proposed merger transaction between Aberdeen Asset Management, one of Merton Pension Fund managers and Standard Life.

- 4.9 There was some discussion on passive and active styles. The Chair commented that, from the Committee's perspective, it was desirable to get the funding level to 100% as soon as possible and that the Committee favoured growth assets to matching assets. AB recommended smart beta rather than pure active; passive approach for developed markets and active style for emerging markets. AB sounded a note of caution on property. JLT had downgraded UK commercial property.
- 4.10 There was some discussion about the transition of assets to the London CIV. AB advised the Committee on the timeline for indicative sub-fund becoming available on the CIV and that Funds continued to be able to procure managers directly pending suitable offering by the CIV. PA advised that the CIV was in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow. CH commented that pooling was a key part of the Government's modernising agenda and that the Fund will transition some assets to the CIV subject to availability of suitable sub-funds to meet Merton's requirement.
- 4.11 The Committee agreed the recommendation of the report. Accordingly, the Committee approved the recommended investment strategy as detailed in the report and the draft Investment Strategy Statement (ISS). The Chair requested that the implementation of the new strategy should reflect the Committee's thinking/views.  
**Action:** Officers, in consultation with JLT, to commence implementation of the agreed investment strategy giving regard to PFAC's views.
- 4.12 The Committee agreed that officers, in consultation with JLT should commence procurement for Private Credit manager(s) at the earliest opportunity either via the CIV or in collaboration with other London Boroughs.  
**Action:** Officers, in consultation with JLT, to commence procurement for Private Credit manager(s).
- 4.13 The Committee approved the draft Investment Strategy Statement and instructed that the ISS (designed to replace the Statement of Investment Principles) be published by no later than 1<sup>st</sup> April 2017 statutory deadline.  
**Action:** Officers to publish the approved L.B Merton Pension Fund ISS on or before 1<sup>st</sup> April statutory deadline.
- 4.14 The Committee requested that officers provide implementation timetable with costs and updates to future PFAC meetings to facilitate monitoring.  
**Action:** Officers to provide implementation timetable and updates to future PFAC meetings
- 4.15 The Chair thanked AB for the presentation.
- 5. UPDATE ON LONDON CIV**
- 5.1 PA advised the Committee that the CIV was continuing to develop more sub-funds across a range of asset classes to meet the needs of London Borough pension funds seeking to implement their investment strategy.

- 5.2 The CIV launched a sub-fund in December 2016 managed by Newton Investment Management, followed by two additional sub-funds (global equity managed by Newton and UK equity managed by Majedie Asset Management) in early 2017.
- 5.3 There was some discussion on the timing of the transfer of some assets to London CIV. PA advised that the first step was to review the compatibility of CIV sub-funds and the Pension Fund investment strategy. The CIV was actively seeking to remove current obstacles for transferring equity portfolios managed through life funds. Property and Infrastructure sub-funds were unlikely to be available on the CIV in the short-term.  
**Action:** Officers to provide updates on the CIV to future PFAC meetings.
- 5.4 The CIV anticipates it will have circa £5.5bn assets under management by the end of 2017.

## **6.0 ANY OTHER BUSINESS**

- 6.1 None
- 6.2 The Chair declared the meeting closed at 9:05pm

### **Date of Next Meetings:**

14<sup>th</sup> June 2017  
30<sup>th</sup> August 2017  
6<sup>th</sup> December 2017  
7<sup>th</sup> March 2018

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

**Date: 7<sup>th</sup> September 2017**

Agenda item: 3

Wards: All

**Subject: L.B Merton Pension Fund Annual Report and Accounts 2016/17**

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Phillip Jones

Forward Plan reference number: N/A

Contact officer: Roger Kershaw

This document is a public document

### **Recommendations:**

- a) That the Panel note the contents of the audited 2016/17 L.B Merton Pension Fund Annual Report;
- b) Note the audited Pension Fund 2016/17 Accounts and external auditors recommendations;
- c) Note that the Pension Fund has a separate Audit Partner from the Council; and
- d) Send comments verbally through the Director of Corporate Services to the Chair of the Standards and General Purposes Committee who will be signing off the Pension Fund Annual Report and Accounts in addition to the Director of Corporate Services' sign off at the 7<sup>th</sup> September 2017 Standards and General Purposes Committee Meeting.

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

- 1.1 The London Borough of Merton Pension Fund Annual Report and Accounts includes the full audited Pension Fund Accounts together with data describing the governance of the Fund, its Policies and its administration and investment performance.
- 1.2 The Pension Fund Advisory Panel is considering the Pension Fund Annual Report, which is attached (Appendix 1) to this Report. Their comments and recommendations will be provided to the Standards and General Purposes Committee by the Director of Corporate Services.

## **2. BACKGROUND**

- 2.1 The Pension Fund Statement of Accounts summarise the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31<sup>st</sup> March 2017.

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS) as amended for UK Public Sector.

- 2.2 The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits.
- 2.3 The Council, as administering authority, is required to prepare and publish a Pension Fund Annual Report in relation to each year beginning on 1<sup>st</sup> April 2008 and each subsequent year.
- 2.4 Regulations 34(3) of The Local Government Pension Scheme (Administration) regulations 2008 and Regulation 57 (3) of The Local Government Pension Scheme 2013 (as amended) require administering authorities to have regard to Guidance given by the Secretary of State and CIPFA when preparing and publishing their pension fund annual report under those Regulations.
- 2.5 Under Regulations 34(2), the report for the financial year ended 31<sup>st</sup> March 2017 must be published by no later than 1<sup>st</sup> December 2017.
- 2.6 Regulation 34 specifies in outline the contents of the pension fund annual report and L.B Merton Pension Fund Annual Report 2016/17 is compliant.

### **3 CONSULTATION UNDERTAKEN OR PROPOSED**

N/A

### **4. FINANCIAL, RESOURCES AND PROPERTY IMPLICATIONS**

N/A

### **5. LEGAL AND STATUTORY IMPLICATIONS**

- 5.1 These are contained within the Report.

### **6. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

N/A

### **7. CRIME AND DISORDER IMPLICATIONS**

N/A

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

N/A

**9. APPENDICES**

1. 2016/17 Audited L.B Merton Pension Fund Annual Report and Accounts
2. L.B Merton Pension Fund Draft Independent Auditor's Results Report to the Members of Merton Council
3. Letter of Representation for L.B Merton Pension Fund

**10. BACKGROUND PAPERS**

- 10.1 The Papers used to compile this Report are held within the Corporate Services Department.

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