

To: Councillor John Wentworth (Chairman);
Councillor Simon Hall (Vice-Chairman);
Councillors Jan Buttinger, Maddie Henson, Yvette Hopley, Humayun Kabir,
Dudley Mead, and Andrew Pelling.

Reserve Members: Councillors Carole Bonner, Robert Canning, Luke Clancy,
Pat Clouder, Joy Prince, and Donald Speakman.

Staff Side Representative – Mr. Isa Makumbi.
Pensioner Representatives – Ms Gilli Driver and Mr. Peter Howard.

A meeting of the **PENSION COMMITTEE**, which you are hereby summoned to attend, will be held on **TUESDAY 8 DECEMBER 2015** at **10.00 AM** in **ROOM F10**, The Town Hall, Katharine Street, Croydon, CR0 1NX.

JULIE BELVIR
Borough Solicitor and Monitoring Officer,
Director of Legal and Democratic Services
Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

JAMES HAYWOOD
Members' Services Manager
Tel: 020 8726 6000 ext.63319
james.haywood@croydon.gov.uk

27 November 2015

Members of the public are welcome to attend this meeting.
If you require any assistance, please contact James Haywood, as detailed above.

Council Members' Pre-Meeting: 9.30am in Room F9

AGENDA - PART A

1. Apologies for Absence

2. Minutes of the last meeting

Minutes of the meeting held on Tuesday 8 September 2015.

3. Disclosure of Interest

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality in excess of £50. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Business Manager at the start of the meeting. The Chairman will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests

4. Urgent Business (If any)

To receive notice of any business not on the agenda which should, in the opinion of the Chairman, by reason of special circumstances, be considered as a matter of urgency.

5. Exempt Items

To confirm the allocation of business between Part A and Part B of the agenda, as printed.

6. Progress Report for Quarter Ended 30 September 2015

7. Review of Funding Approach for Academies: Consultation Responses

8. Revised Statement of Investment Principles

9. Pensions Administration Strategy Consultation

10. Government consultation on the design of the structure and governance of efficient and effective CIVs for LGPS funds; investment reform criteria and guidance; and revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009: Verbal Update

11. Camera Resolution

To resolve that the Press and public be excluded from the remainder of the meeting on the grounds that it is likely, in view of the nature of the business to be transacted or proceedings to be conducted, that there will be disclosure of confidential or exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

AGENDA - PART B

B1. Minutes of the last meeting

B2. Progress Report for Quarter Ended 30 September 2015

B3. Update on matters relating to other employers in the Croydon LGPS

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PENSION COMMITTEE

Meeting held on Tuesday 8 September 2015 at 10am
in Room F10, The Town Hall, Katharine Street, Croydon, CR0 1NX

WRITTEN MINUTES – PART A

Present: Councillor John Wentworth (Chairman);
Councillor Simon Hall (Vice-Chairman);
Councillors Jan Buttinger, Humayun Kabir, Yvette Hopley, Maddie Henson, Dudley Mead, and Andrew Pelling

Also Present: Mr. Isa Makumbi (Staff Side Representative)
Ms. Gilli Driver (Pensioner Representative)

In attendance: Daniel Carpenter, David Lyons (Aon Hewitt)
Richard Warden, (Hymans Robertson)
Mike Ellsmore, (Chair of the Local Pensions Board)
Sue Exton, (Grant Thornton)
Nigel Cook, (Head of Pensions and Treasury)
Freda Townsend, (Head of Pensions)
Sam Fisher, (Investment Officer)
Matthew Hallett, (Pension Fund Investment Manager)
Richard Simpson, (Assistant Chief Executive and s151 Officer)

A23/15 APOLOGIES FOR ABSENCE

Apologies were received from Mr. Peter Howard (Pensioner representative)

A24/15 MINUTES OF THE MEETING HELD ON 9 JUNE 2015

RESOLVED that the Part A minutes of the meeting held on 9 June 2015 be signed as a correct record of the decisions taken.

A25/15 DISCLOSURES OF INTEREST

No disclosures of interest were made during the meeting.

A26/15 URGENT BUSINESS

There was no urgent business to consider.

A27/15 EXEMPT ITEMS

RESOLVED: That the allocation of business between Part A and Part B of the agenda be confirmed, as printed.

A28/15 **PROGRESS REPORT FOR QUARTER ENDED 30 JUNE 2015** (item 6)

The item was introduced by the Head of Pensions and Treasury. The Committee heard that the lack of progress towards long term targets was due to the Sterling performing strongly on the currency exchange market. The drop in passive investments was due to tax arrangements which over the long term would recover.

In response to questions from Committee it was stated that substantial research had been undertaken on emerging markets and 5% investment had been factored into this area. Due to the current market volatility this investment had not yet been implemented.

Daniel Carpenter stated that the quarter had been a challenging one with weak equity and bond performance; however the property and infrastructure sectors had performed strongly. It was emphasised that not only was this quarter a challenging one, but July and August had seen difficulties as well.

In response to questions from Committee it was stated that market volatility was also due to a lack of liquidity – caused mainly by less deals taking place over the holiday season. It was expected that liquidity would improve as the holiday season ended. Greater diversification was being considered, particularly in the private property and infrastructure sectors.

The Committee **NOTED** the contents of the report.

A29/15 **EXECUTING REVISED ASSET ALLOCATION** (item 7)

The item was introduced by the Head of Pensions and Treasury. It was reported that there would be greater allocation to infrastructure and the private rental sector. The private rental sector is an immature market and a number of leading fund managers have been considered, with recommendations to be made to Committee soon. Formal notice has been given to Blue Crescent to liquidate funds back to us. This was done at the earliest possible opportunity as there is a complex process to return funds.

The Committee **RESOLVED** to:

1. Approve the asset allocation strategy as set out in the report
2. Note that the process of Fund manager selection has been delegated to the Assistant Chief Executive, in consultation with the Chair
3. Note the provisional timeline for implementation of the strategy
4. Noted the advisory comment in section 1.1.3. of the report

A30/15 EMPLOYER RISK STRATEGY (item 8)

The item was introduced by the Head of Pensions and Treasury. It was reported that the Pensions Regulator is now responsible for the LGPS and a code of practice has been produced which must be adhered to. One aspect of this code of practice is to undertake an employer risk strategy.

Richard Warden stated that robust funding plans are required in the new era of the LGPS where Croydon has a number of employers within the scheme such as subcontractors and academies. A key duty is to ensure that employers pay their rates; two risks associated with this duty are employers' ability to pay and willingness to pay. Engagement with employers is key and a suggested timetable is included within the report. In response to questions from the Committee it was stated that employee contributions could only be amended by central government.

The Committee **RESOLVED** to approve the schedule of work as stated in the report.

A31/15 STATEMENT OF ACCOUNTS AND ANNUAL REPORT (item 9)

Sue Exton introduced the item and reported that the audit had gone well and only a few adjustments had been required.

The Head of Pensions and Treasury thanked the auditors for their report. The annual report was introduced and it was explained that the report followed a constrained format as directed by guidance. It was highlighted that at this stage the document was still a draft and comments were invited from the Committee. The final version would be published on the Fund website – there is no longer a requirement to print hard copies.

The Committee **RESOLVED** to:

1. Approve the Pension Fund Annual Report, subject to any required amendments
2. Note the Annual Governance Report from the Fund's auditors

A32/15 LONDON CIV – DELEGATED AUTHORITY AND REGULATORY CAPITAL (item 10)

The Head of Pensions and Treasury introduced the item by reporting that the CIV was now operational subject to approval by the Financial Conduct Authority (FCA) and the intention was to begin investments within this calendar year.

In response to questions from the Committee it was stated that all authorities within the CIV contribute the same value of regulatory capital and as such there is no subsidising of other councils. Of the 33 London

boroughs, 31 have joined with the possibility of the other two joining at a later stage. The main savings achieved are cheaper fees and the ability to move between investments without incurring procurement costs. The level of savings is projected to be in the hundreds of thousands of pounds and in the longer term potentially millions of pounds.

The Committee **RESOLVED** to:

1. Note the update on the progress of the CIV
2. Delegate authority to the Assistant Chief Executive, in consultation with the Pensions Committee Chair, to settle any contracts concerned with CIV on behalf of the Council and Pension Fund
3. Delegate authority to the Assistant Chief Executive, in consultation with the Pensions Committee Chair, to invest sums required for regulatory capital to the London CIV to meet the requirements of the FCA authorisation
4. Agree that where circumstances arise and the Committee is not available for consultation, delegate to the Assistant Chief Executive in consultation with the Pensions Committee Chair, the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund

A33/15 CONSULTATIONS RELATING TO LGPS AND PENSIONS (item 11)

The Head of Pensions and Treasury introduced the item by reporting that the Code of Practice required the Fund to publish the annual benefits savings for staff report by August 2015. It was reported that this deadline was missed due to a combination of technical issues and the fact that many employers are schools which were shut during the summer months. The Committee was assured that these were teething problems and that officers fully expected to comply with the deadline from next year. It was emphasised that no statutory obligations were being breached by missing the deadline – the deadline was set by the Code of Practice.

Since the summer budget a number of consultations on public sector pensions had taken place. One specific requirement from the consultations was the need for Funds to pool investments to increase savings. Experience suggests that the government targets for savings will be ambitious.

There is currently a consultation taking place with regards to tax relief on pensions. The question is whether tax relief should come at the point of contributions or receipt of benefits. The current situation is tax relief at point of contribution. Officers expressed concern that to reverse this process would disincentivise people to save.

The government have announced a consultation on capping the amount of redundancy and other exit payments in the Public Sector to £95,000. The summer budget also introduced a tapered reduction in the £40,000 annual allowance down to a minimum of £10,000 for those with earnings,

including pension contributions, of over £150,000. This is on top of the already announced reduction in the lifetime allowance from £1.25m to £1m. Both will come into effect from April 2016. The tapered annual allowance has also required the introduction of a complex mechanism to align all pension input periods with the tax year by April 2016. It all means even more challenges for administrators.

Finally, it was reported that KPMG had been appointed by the LGPS Scheme Advisory Board to conduct work into exploring a set of options. The first was for a stronger role for the Section 151 Officer within a distinct entity of the host authority. The second option was a Joint Committee of two or more administering authorities. The final option was for complete separation of the pension fund from the host authority.

The Committee **NOTED** the contents of the oral report.

A34/15 CAMERA RESOLUTION (item 11)

The CAMERA resolution was proposed by Councillor Wentworth and seconded by Councillor Mead.

The Committee **RESOLVED** that the Press and Public be excluded from the remainder of the meeting on the grounds that it is likely, in view of the nature of the business to be transacted or proceedings to be conducted, that there will be disclosure of confidential or exempt information falling within those paragraphs indicated in Part 1 of Schedule 12 A of the Local Government Act 1972, as amended.

SUMMARY OF PART B DISCUSSION

A35/15 The remainder of the meeting included disclosure of exempt information (as defined by paragraph 3 of Schedule 12A in Part 1 of the Local Government Act 1972: 'Information relating to the financial or business affairs of any particular person (including the authority holding that information)'). The minutes of the discussion are therefore also exempt and not available to the public.

A summary of the discussion is below, as required by section 100C(2) of the Local Government Act 1972.

item B1. The Committee **RESOLVED** that the Part B minutes of the meeting held on 9 June 2015 be approved as a correct record of the decisions taken and be signed by the Chairman.

item B2. Progress Report for Quarter Ended 30 June 2015 (exempt under paragraphs 3 & 10)

The Committee **NOTED** the Part B content of the progress report.

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Croydon Council

REPORT TO:	PENSION COMMITTEE 08 December 2015
AGENDA ITEM:	6
SUBJECT:	Progress Report for Quarter Ended 30 September 2015
LEAD OFFICER:	Richard Simpson, Assistant Chief Executive (Corporate Resources and s.151 Officer)
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments is in line with their benchmark and within the assumptions made by the Actuary.	
FINANCIAL SUMMARY: This report shows that the market value of the Pension Fund (the Fund) investments as at 30 September 2015 was £810.7m compared to £827.5m at 30 June 2015, a decrease of £16.8m. The performance figures in this report have been provided by State Street Global Services – Performance Services and are quoted net of fees. Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor AON Hewitt. Committee are asked to note that global equity markets performed extremely well during October and the Fund was back up to c£840m as at 31 October 2015.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

- 1.1 The Committee are asked to consider and note the contents of this report.

2 EXECUTIVE SUMMARY

2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the year and quarter to 30 September 2015. This includes an analysis by asset class and by fund manager. The report comprises two parts: the second part of this report contains material that is considered commercially sensitive or material that is propriety for advisors to the Fund so appears in Part B of the agenda. Members of the Committee may wish to read this report in conjunction with the Fund Managers' and the State Street Global Services – Performance Services reports, which have been distributed separately. Table 1 below summarises this quarter's market values by asset class.

Asset Class	Value at Asset class at Quarter End in £million		Performance relative to benchmark (%)		
	Quarter Ended 30/06/2015	Quarter Ended 30/09/2015	Return Made (a)	Benchmark Return (b)	Over/Under Performance (a-b)
Global Equities – FTSE4 Good	417.9	401.5	-4.6	-4.5	-0.1
Global Equities – World Index	38.8	36.7	-5.4	-5.4	0.0
Global Fixed Interest	174.4	176.1	1.0	1.5	-0.5
Fund of Hedge Funds	31.4	32.2	2.5	2.5	0.0
Private Equity ¹	44.5	46.6	1.0	-5.3	6.3
Property	80.5	85.9	3.5	3.4	0.1
Infrastructure ¹	29.0	29.5	-0.5	2.9	-3.4
Cash ²	11.0	2.2	0.2	0.1	0.1
Fund Total	827.5	810.7	-1.9	-1.5	-0.4

Source: State Street Global Services – Performance Services

All figures are rounded to the nearest one decimal place for clarity. Because of roundings figures may not cross-cast. Source: State Street Global Services – Performance Services.

Notes:

¹ Returns for private equity and infrastructure are lagged, that is to say the process by which the assets are valued and performance assessed takes longer than the time required to prepare quarterly valuations. These returns are also quite lumpy – so that one does not observe a steady, smooth growth in the value of the funds, rather they increase in value in steps.

² Cash figure is cash held in house. The performance figure reflects the use of AAA-rated money market funds to deposit working capital. These instruments are rated as being very risk averse but consequently generate less returns.

- 2.2 This report also considers officers' review of the Fund Managers over the quarter. This takes into consideration the performance of the Manager against the agreed target, trigger events defined by Croydon that require investigation, and the rating given by AON Hewitt; providers of independent analysis on the fund managers. AON Hewitt's ratings report (Appendix D) appears in the closed section of the report.
- 2.3 Financial and market commentaries from the Council's Independent Pension Fund Adviser AON Hewitt are appended to this report (Appendix F in the closed section of the report). AON Hewitt (Appendix E in the closed section of the report) provides a Market Valuation Review of the medium term outlook for returns over three to five years.

3 DETAIL - PERFORMANCE OF THE PENSION FUND

- 3.1 State Street Global Services – Performance Services collates valuation and performance data for Croydon's Pension Fund Investment Managers. Reporting on the Fund's performance has been provided below for the period to 30 September 2015. The overall Fund benchmark is a weighted average of the Fund's individual asset benchmarks based on the target allocation to each asset class.

Changes to Fund Structure

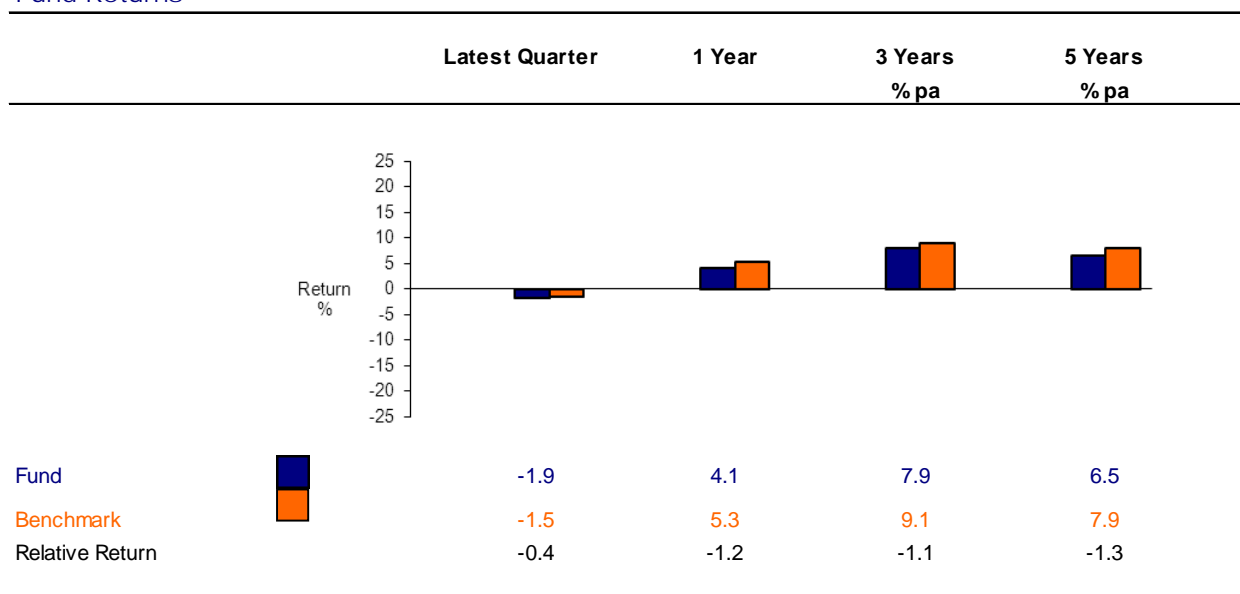
- 3.2 A new asset allocation strategy was approved at the last Committee meeting held on 8 September 2015.
- 3.3 The cash balance reported in Table 1 above represents cash held by the in-house treasury team and includes both working capital (i.e. the difference between contributions received and benefits and transfers paid out) and cash liquidated awaiting reinvestment. Cash managed in-house is held as working capital and therefore during any given quarter can be reduced by the value of invoices paid out or transfers made. The largest regular charge on this sum relates to the cost of the pensions payroll that is financed by the General Fund of the Council and recharged to the Pension Fund. In keeping with best practice the cash is held and accounted for separately from the general funds of the authority. The balance is invested overnight in a Goldman Sachs Asset Management Money Market Fund. Interest is accrued on a daily basis and paid monthly.

Total Fund Performance

- 3.4 The chart below provides a high level summary of the performance of the fund. The total Fund return for the quarter was -1.9% underperforming the benchmark by -1.5%. The Fund has underperformed the benchmark over the year, 3-year and 5-year periods. Further details of performance including underlying asset classes and individual fund managers are provided in section 4 below.

Chart 2: Performance of the Pension Fund

Fund Returns



Source: State Street Global Services – Performance Services

3.5 Chart 3 below details the movement in the Market Value of Fund on a quarter by quarter basis, over a 5-year period. The market value of the fund at the end of September 2015 was £810.7m, a decrease of £16.8m over the previous quarter's valuation.

Chart 3: Trend in Total Value of Pension Fund in £millions

3.6 Chart 4 below illustrates the Fund's historic relative performance against the benchmark since inception of the revised investment strategy. This benchmark is an aggregate of individual asset class benchmarks weighted by the Fund's target asset allocations.

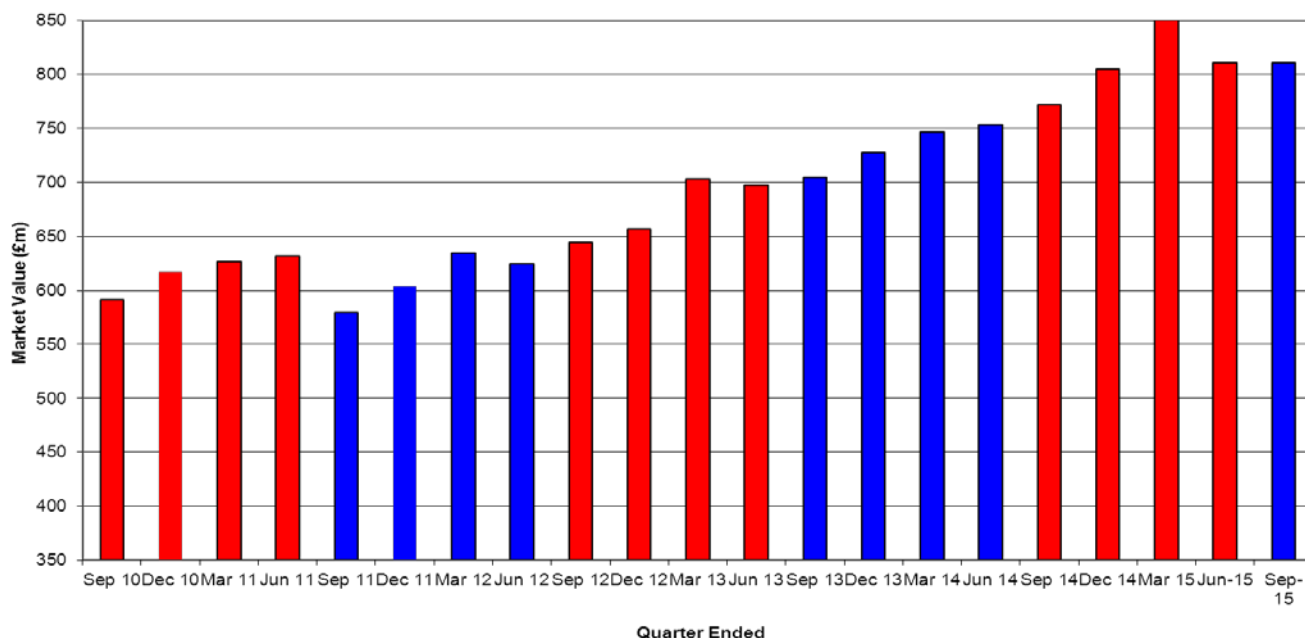


Chart 4: Trend in Relative Returns of the Pension Fund

	2012		2013				2014				2015	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Values (GBPm's)												
Initial	644.0	653.1	703.4	697.2	704.3	727.4	746.7	753.1	770.3	804.8	852.2	827.5
Net Investment	0.5	3.0	-2.2	-1.1	0.9	14.5	-8.1	-0.2	3.9	10.1	2.8	1.4
Capital Gain/Loss	8.6	47.3	-4.0	8.2	22.1	4.9	14.5	17.4	30.6	37.2	-27.5	-18.2
Final	653.1	703.4	697.2	704.3	727.4	746.7	753.1	770.3	804.8	852.2	827.5	810.7
Income	1.2	1.3	2.7	1.4	1.0	1.5	2.6	1.9	1.7	1.4	3.5	2.5
Proportion Of Total Fund (%)	100	100	100	100	100	100	100	100	100	100	100	100

Quarterly Returns



Fund	1.5	7.4	-0.2	1.4	3.3	0.8	2.3	2.6	4.2	4.8	-2.8	-1.9
Benchmark	1.8	7.7	0.5	1.4	3.2	1.6	2.3	3.0	4.0	5.0	-2.1	-1.5
Relative Return	-0.3	-0.2	-0.7	0.0	0.1	-0.7	-0.0	-0.4	0.2	-0.2	-0.8	-0.4

Source: State Street Global Services – Performance Services

Attribution

- 3.7 For the period ending 30 September 2015 the Fund's return of -1.9% was 0.4% under the benchmark return. The table below shows that asset allocation was the most significant downward pressure on performance. This is in part due to the fact that the portfolio is in transition and assets are not yet aligned with the revised strategy: this causes a drag on performance.

Summary:

Fund Return	-1.9
Benchmark Return	-1.5
Relative Performance	-0.4
attributable to:	
Asset Allocation	-0.4
Stock Selection	-

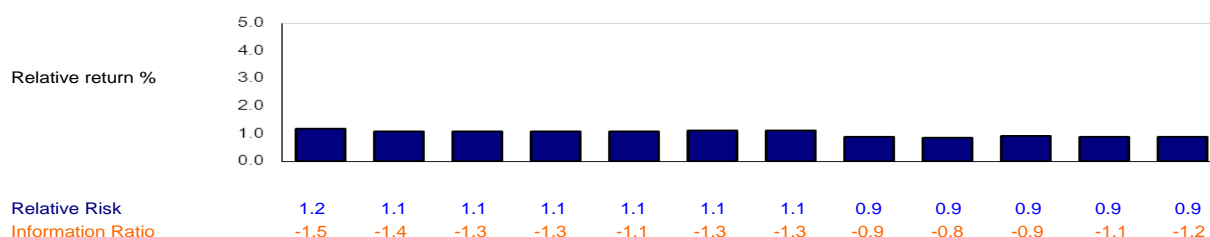
Source: State Street Global Services – Performance Services

Risk

- 3.8 Chart 5 below illustrates the relative risk of the fund over the past 3 years. Relative risk measures the degree of fund performance deviation from benchmark. This is compared with the information ratio, a measure of manager skill in adding value over and above the benchmark. The reduction in relative risk is consistent with the strategy to move away from more rigidly idiosyncratic investment styles.

Chart 5: Relative Risk of the Pension Fund

Rolling 3 Year Risk



Source: State Street Global Services – Performance Services

- 3.9 State Street Global Services – Performance Services graphs demonstrating the impact of asset allocation and stock selection are attached as Appendix C to this report.

3.10 Below is a table of the Top 10 holdings within the segregated part of the portfolio:

Top 10 Holdings Held in Fund	Value (£m)	Weight %
APPLE INC	15.35	1.89%
GOOGLE	8.76	1.08%
MICROSOFT CORP	7.76	0.96%
WELLS FARGO & CO	6.47	0.80%
JOHNSON & JOHNSON	6.26	0.77%
NESTLE SA	5.80	0.72%
AT&T INC	4.90	0.60%
PROCTER & GAMBLE	4.80	0.59%
NOVARTIS AG	4.76	0.59%
ROCHE HOLDING AG	4.52	0.56%

Source: BNYM Workbench

4 FUND MANAGER PERFORMANCE

Summary

- 4.1 Appendix A details the market value and performance over the quarter and since inception for each fund manager.
- 4.2 Chart 6 illustrates the performance of each fund manager against their benchmark over the most recent quarter and Chart 7 demonstrates performance for each since inception. Note that the benchmark for private equity does not satisfactorily reflect the potential of immature funds such as Equitix and Knightsbridge. Consequently these two charts do not show performance for the quarter and from inception for the private equity and infrastructure funds, that is to say, Equitix, Knightsbridge and Pantheon.

Chart 6: Fund Manager Quarterly Returns

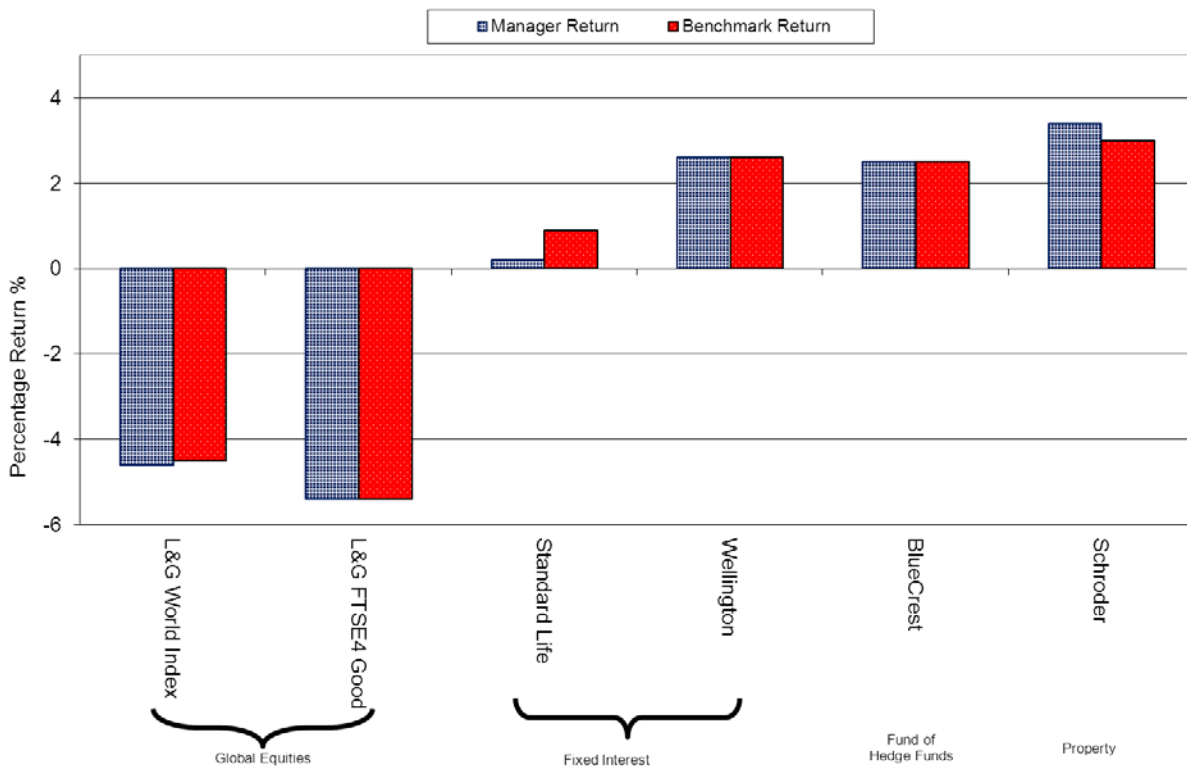
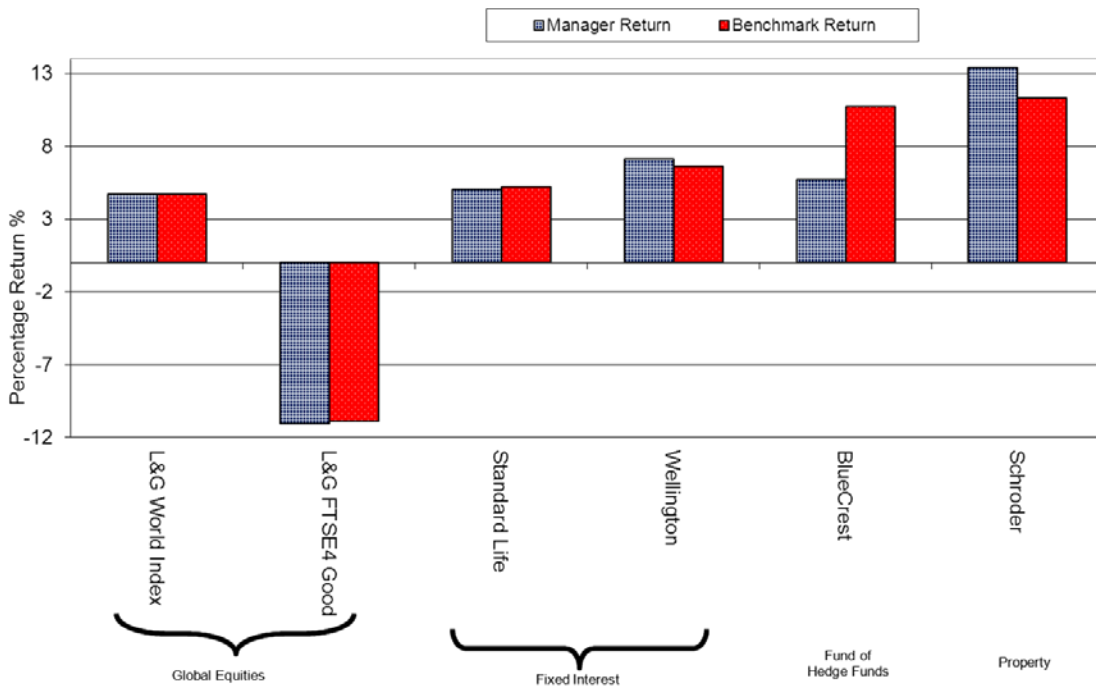


Chart 7: Fund Manager Returns Since Inception



4.3 Global equities declined amid worries about the economic slowdown in China and

the implications for global growth. The US Federal Reserve's decision not to increase interest rates was a key moment in the quarter and exacerbated the sense of uncertainty in markets. In the Eurozone, the autos sector came under severe pressure after revelations that VW had misled regulators on emissions from diesel vehicles. Japanese equities suffered amid weaker than expected data for Japan's economy. Stocks were further pressured as the yen saw inflows due to its perceived 'safe haven' status. Weak Chinese economic data was a drag on emerging markets while Brazil was also a focus as S&P Ratings downgraded the country's debt to non-investment grade. The third quarter was broadly positive for global bonds, as commodity price weakness and fears over global economic growth led investors to seek out 'safe havens'.

- 4.4 The Pension Committee has, in the past, asked for information about investment in payday lenders. The Fund has a small amount invested in three businesses: Global Analytics in the USA; Kestrel; and Wonga, both in the UK. With effect from January 2015 the Financial Conduct Authority (FCA) introduced a series of measures to limit the costs relating to payday loans, including capping interest rates, fees, default charges and a total cost cap of 100% of the sum borrowed. The current value of these investments is c. £27,000 (or 0.003%) of the Fund: the estimated exit date is 2016, as reported to the Committee last year.

Fund Manager Review

- 4.5 Officers continuously review the performance of managers and engage with them periodically. A summary table of results is provided below. A tolerance level of 1% below the benchmark has been set for further investigation. Where appropriate, Officers will meet with the manager to discuss performance and consistency of investment themes. Note, where underperformance is consistent across all managers, and attributable to market conditions, - i.e. beta, a review will be considered based on the circumstances at the time. Along with performance data, qualitative information will be considered based on trigger events, news and reviews by the Fund's independent advisors. Members are invited to comment on the outcome of this review process.

Table 2: Summary by Fund Manager

Fund Manager	Is Performance in line with the appropriate index? (allowing for 1% variance)	Has there been no trigger event?	Has there been a visit (or virtual meeting) this quarter?	If in any of these instances the answer is no, what action has been taken?
L&G	✓	✓	X	See paragraph 4.12
Standard Life	✓	✓	X	See paragraph 4.12
Wellington	✓	✓	✓	See paragraph 4.12
BlueCrest	✓	✓	X	Exiting fund manager
Pantheon	n/a	✓	✓	See paragraph 4.12
Equitix	n/a	✓	X	See paragraph 4.12
Knightsbridge	n/a	✓	X	See paragraph 4.12
Schroders	✓	✓	X	See paragraph 4.12

Performance

- 4.6 There was a range of outperformance and underperformance by the managers against their benchmarks over the quarter. For further details please refer to Appendix A showing the State Street Global Services – Performance Services performance for each fund manager.

Equities

- 4.7 The L&G FTSE World tracker mirrored the index returning -5.4% and the L&G segregated equity portfolio (tracking FTSE4 Good Index) slightly under performed the index by -0.1% returning -4.6%. Global equities declined amid continuing worries about the slowdown in China. Over the quarter the MSCI world index returned -8.33% in dollar terms and -4.83% in sterling terms.

Fixed Interest

- 4.8 Wellington's performance of 2.6% during the quarter was in line with the benchmark and continues to outperform the BAML GBP Broad Market benchmark by 0.5% since inception. Standard Life underperformed the benchmark by -0.6% over the quarter and has underperformed the benchmark by 0.2% since inception.

Property

- 4.9 The formal measurement of Schroders' performance commenced in the quarter starting 1 January 2014. The Schroders' UK property portfolio is measured against the IPD All Balanced Weighted Average index. The portfolio outperformed the benchmark by 0.4% during the quarter to 30 September 2015 and has done well for the fund returning 13.4% and outperforming the benchmark by 1.9% since inception.

Fund of Hedge Funds

- 4.10 The investment held with BlueCrest was liquidated and £32.2m was received on 22 October 2015. The fund has produced an annualized return of 5.7%.

Private Equity and Infrastructure

- 4.11 The most appropriate measure to monitor the performance of these type of funds is to use the Internal Rate of Return (IRR) since inception as this explicitly takes the irregular timings of cash flows into account. Although this measure cannot be compared to the time-weighted measure used for standard investments and for immature funds (less than six years old) the results can be misleading. We have calculated the IRR for Pantheon as 11.1%, Equitix 16.7% and Knightsbridge as 13.75%, although Equitix has one immature fund out of three and Knightsbridge has one immature fund out of two. The returns are still seen as being healthy for all three investment managers.

Manager Visits

- 4.12 In addition to virtual meetings held during the quarter ended 30 September 2015, officers and/or members attended meetings with the following managers:

Manager	Date of Meeting
Wellington	17 September 2015
Pantheon	9 September 2015

5. ASSET ALLOCATION

Effect on Performance

- 5.1 Returns of the Fund are due to two factors; the allocation of investments to different assets classes; and how these individual asset classes perform. Table 3 below summarises the asset allocation as at 30 September 2015. Note the strategic asset allocation changed at the last Committee meeting, but we are still reporting on the old basis for this quarter. The geographical breakdown of asset allocation is provided in the State Street Global Services – Performance Services Asset Mix and Returns schedule attached as Appendix B.

Table 3: Asset Allocation of the Pension Fund

Asset Class	Percentage of Fund Value	Strategic Allocation	Variance
Equities	54.1%	50% +/- 3	4.1%
Fixed Income	21.7%	25% +/- 3	-3.3%
Property	10.6%	10% +/- 3	0.6%
Private Equity	5.7%	5%	0.7%
Infrastructure	3.6%	5%	-1.4%
Hedge Funds	4.0%	4%	0.0%
Cash	n/a	n/a	n/a

Source: State Street

- 5.2 The Fund held an overweight position in equities an underweight in fixed income and infrastructure at the end of the quarter. Rebalancing the portfolio has been postponed until the new asset allocation strategy has been achieved. Members should note that the liquidation of the hedge fund investments falls outside the reporting period for this report but all cash has been received.
- 5.3 Members will note that market volatility has the potential to drive the weightings of asset allocation out of balance. Asset allocations against the benchmark are reviewed and addressed on a quarterly basis within the agreed tolerances. Adjusting investment levels can be a protracted process involving extensive due diligence and therefore there will typically be a lag between the decision to rebalance and the execution of that decision.
- 5.4 When private equity and infrastructure investments are in their infancy, it takes considerable time to draw down the full amount of committed capital. As the investments mature, the investment manager's pay capital distributions to the Fund. To counter balance the incoming cash flow, further investments are made into private equity and infrastructure funds. Hence it is very difficult to keep these assets classes at their strategic allocation.

- 5.5 The asset allocation of the portfolio will be monitored internally by officers on a monthly basis. Where needs be the portfolio will be further rebalanced under delegated powers and in consultation of the Chair.
- 5.6 At its last meeting the Committee was given an indicative timetable for executing this strategy. The exercise comprised three parts: identification of investment opportunities; due diligence; and transfer of cash. Officers have made good progress to date. The progress update is attached in Appendix G.

6 INVESTMENT ADVISOR'S REVIEW

- 6.1 An independent review of the fund managers has been provided by AON Hewitt in the Managing Monitoring Report attached as Appendix D on the closed section of the agenda. AON Hewitt has applied a rating to each fund manager and a traffic light system has been used to highlight where there are issues of concern surrounding each manager.
- 6.2 AON Hewitt have also produced a Market Review paper for the quarter ended 30 September 2015, it is attached at Appendix E in the closed section of this report. This examines the prospects for equities and fixed interest over the forth coming period.

7 CONSULTATION

- 7.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

8 FINANCIAL CONSIDERATIONS

- 8.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

9. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 9.1 The Council solicitor comments that there are no legal issues arising from this report.

(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer)

10. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

- 10.1 This report contains confidential information which could be of a sensitive nature, disclosure of which could prejudice the commercial interest of the companies involved and those of the Council's Pension Fund.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Corporate Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

Reports from State Street Global Services – Performance Services

Reports from AON Hewitt

Appendices

Appendix A: Summary of Manager Performance

Appendix B: Asset Mix and Returns

Appendix C: Detailed Analysis of the Latest Quarter Performance

Appendix G: Progress towards revised asset allocation

The following appendices are commercially sensitive:

Appendix D: AON Hewitt Manager Monitoring Report

Appendix E: AON Hewitt Market Review: 3 months to 30 September 2015

Appendix F: AON Hewitt Quarterly Investment Outlook

Summary of Manager Performance - Rates of Return

LONDON BOROUGH OF CROYDON - TOTAL COMBINED

Periods to end September 2015

Pound Sterling

	Mkt Val (GBP 1000)	% of Fund	Latest Quarter	1 Year	3 Years	5 Years	Since Inception	Incept. Date
Bonds - World								
WELLINGTON	57,031	7.0	2.6	7.5	3.7	6.1	7.1	29/1/2010
BAML GBP BROAD MARKET			2.6	7.3	4.1	5.7	6.6	
			0.1	0.2	-0.4	0.3	0.5	
STANDARD LIFE	119,052	14.7	0.2	1.9	3.5	4.1	5.0	31/3/2010
STANDARD LIFE CUSTOMISED BOND BENCHMARK			0.9	3.8	4.0	4.4	5.2	
			-0.6	-1.8	-0.4	-0.2	-0.2	
Private Equity								
KNIGHTSBRIDGE	13,254	1.6	7.5	28.8	17.1	11.9	8.8	31/12/2009
LB OF CROYDON - KNIGHTSBRIDGE PRIVATE EQUITY			-5.3	9.5	12.9	8.1	8.2	
			13.5	17.7	3.7	3.4	0.6	
PANTHEON VENTURES	33,309	4.1	-1.5	11.6	5.9	8.9	9.0	31/12/2001
LB OF CROYDON - PANTHEON PRIVATE EQUITY B/M			-1.6	2.6	11.0	8.2	6.2	
			0.1	8.8	-4.6	0.7	2.7	
Absolute/Targeted Return								
BLUECREST CAPITAL MGT	14,730	1.8	1.9	3.7	5.1	4.0	4.9	31/12/2009
GBP 3 MONTH LIBOR + 10%			2.5	10.6	10.5	10.7	10.7	
			-0.6	-6.2	-4.9	-6.0	-5.2	
Fund - Hedged								
BLUECREST CAPITAL MGT	17,499	2.2	3.1	4.4			8.0	1/10/2013
GBP 3 MONTH LIBOR + 10%			2.5	10.6			10.6	
			0.5	-5.6			-2.3	
Infrastructure								
EQUITIX	29,536	3.6	-0.5	-4.9	6.6	10.9	10.8	31/12/2009
12% PER ANNUM (GBP)			2.9	12.0	12.0	12.0	12.0	
			-3.3	-15.1	-4.8	-0.9	-1.0	
Cash								
INTERNALLY MANAGED CASH	2,192	0.3	0.3	n/a	n/a	n/a	n/a	28/6/2002
GBP 7 DAY LIBID			0.1	0.3	0.4	0.4	2.4	
			0.2					
Equity - World								
L&G	36,693	4.5	-5.4	0.7			4.7	30/4/2014
FTSE World TR			-5.4	0.8			4.7	
			0.0	-0.1			-0.1	
L&G	401,508	49.5	-4.6				-11.1	23/3/2015
FTSE4GOOD GLOBAL BENCHMARK TR			-4.5				-10.9	
			-0.1				-0.1	
Property - UK								
SCHRODER INVESTMENT MGMT INTL	85,914	10.6	3.4	15.2	14.0		13.4	31/8/2012
AREF/IPD ALL BALANCED			3.0	14.4	11.7		11.3	
			0.4	0.7	2.0		1.9	
TOTAL FUND								
TOTAL COMBINED	810,717	100.0	-1.9	4.1	7.9	6.5	7.4	31/12/1990
L B OF CROYDON BENCHMARK			-1.5	5.3	9.1	7.9	8.3	
			-0.4	-1.2	-1.1	-1.3	-0.8	

Asset Mix and Returns

LONDON BOROUGH OF CROYDON - TOTAL COMBINED
Benchmark - L B OF CROYDON BENCHMARKPeriods to end September 2015
Pound Sterling

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation						Stock Selection			
	30/06/2015		Purchases	Sales	Gain/ Loss Income		30/09/2015		Return	B'M
	Value	%			Value	%				
TOTAL EQUITIES	456,657	55	7,756	5,512	-23,232	1,899	435,670	54	-4.7	-4.5
GLOBAL POOLED INC UK	456,657	55	7,756	5,512	-23,232	1,899	435,670	54	-4.7	-4.5
GLOBAL EQUITIES	417,868	50	7,756	5,504	-21,143	1,899	398,977	49	-4.6	
WORLD EQUITY INDEX	38,789	5		8	-2,089		36,693	5	-5.4	
TOTAL BONDS PLUS INDEX-LINKED	174,351	21	1		1,731	1	176,083	22	1.0	1.5
STANDARD LIFE GARS	64,773	8			-239		64,534	8	-0.4	
POOLED BONDS	109,578	13	1		1,970	1	111,549	14	1.8	1.5
CORPORATE BONDS	54,019	7			499		54,518	7	0.9	0.9
GLOBAL BOND FUND	55,559	7	1		1,471	1	57,031	7	2.6	2.6
CASH/ALTERNATIVES	115,936	14	21,123	23,640	1,088	19	114,506	14	1.0	-0.1
TOTAL CASH	10,961	1	17,963	22,744	0	19	6,179	1	0.2	0.1
ALTERNATIVES	104,975	13	3,160	895	1,088		108,327	13	1.0	-0.1
TOTAL INFRASTRUCTURE	29,028	4	659		-151		29,536	4	-0.5	2.9
EQUITIX PRIVATE EQUITY	29,028	4	659		-151		29,536	4	-0.5	
TOTAL PRIVATE EQUITY	44,515	5	2,500	895	443		46,564	6	1.0	-5.3
PANTHEON PRIVATE EQUITY	32,187	4	2,500	895	-483		33,309	4	-1.5	
PANTHEON US FUND	2,530	0	308	503	-200		2,135	0	-8.2	
PANTHEON ASIA FUND	162	0			-8		154	0	-5.1	
PANTHEON EUROPE FUND	2,647	0		381	-54		2,212	0	-2.2	
PANTHEON - ASIA IV	3,812	0	318		-7		4,122	1	-0.2	
PANTHEON - EUROPE FUND VII	6,246	1	459		50		6,755	1	0.8	
PANTHEON USA FUND IX	8,192	1	568		-206		8,554	1	-2.4	
PANTHEON GLOBAL CO INVESTMEN	6,703	1	847		-142		7,409	1	-2.0	
PANTHEON - GLOBAL SECONDARY F	1,896	0		11	83		1,968	0	4.4	
KNIGHTSBRIDGE VENTURE CAPITAL	12,328	1			927		13,254	2	7.5	
TOTAL HEDGE FUNDS	31,433	4			795		32,228	4	2.5	2.5
HEDGE FUNDS	14,457	2			272		14,730	2	1.9	2.5
BLUECREST HEDGE FUND	16,975	2			523		17,499	2	3.1	
TOTAL - EX. PROPERTY	746,944	90	28,879	29,152	-20,413	1,919	726,259	90	-2.5	-2.1
U.K. PROPERTY	80,549	10	5,453	3,801	2,256	565	84,458	10	3.5	3.4
PROPERTY UNIT TRUSTS	75,139	9	5,453	3,801	2,056	549	78,848	10	3.5	
PROPERTY	5,410	1			200	16	5,610	1	4.0	
TOTAL ASSETS	827,493	100	34,333	32,953	-18,157	2,484	810,717	100	-1.9	-1.5

This page analyses in detail the Fund performance over the latest period.

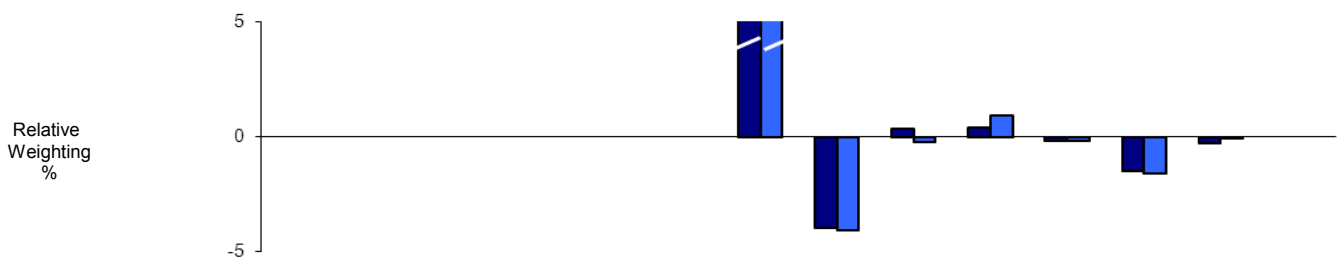
Summary

Fund Return	-1.9
Benchmark Return	-1.5
Relative Performance	-0.4
attributable to:	
Asset Allocation	-0.4
Stock Selection	-

The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

	Total Equity	Bonds + IL	Cash	Private Eq	Total Hedge	Infrastruc	Property	Total Fund
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Asset Allocation



Fund Start	55.2	21.1	1.3	5.4	3.8	3.5	9.7	100.0
Fund End	53.7	21.7	0.8	5.7	4.0	3.6	10.4	100.0
BM Start	50.0	25.0	1.0	5.0	4.0	5.0	10.0	100.0
BM End	48.5	25.8	1.0	4.8	4.2	5.2	10.5	100.0
Impact	-0.2	-0.1	-	-	-	-0.1	-	-0.4

Stock Selection



Fund	-4.7	1.0	0.2	1.0	2.5	-0.5	3.5	-1.9
Benchmark	-4.5	1.5	0.1	-5.3	2.5	2.9	3.4	-1.5
Impact	-0.1	-0.1	-	0.4	-	-0.1	-	-

Appendix G – Progress update revised asset allocation

	Private Equity	Infrastructure	Property	PRS
Target Asset Allocation	8%	10%	10%	6%
Current Asset Allocation	5.7%	3.6%	10.5%	0%
Original Plan	<p>Identification of potential target funds for investment.</p> <p>Two new funds with commitments of £10m - £15m in addition to meeting requirements to maintain current programme</p> <p>Aug to mid- October 2015</p>	<p>Identification of potential target funds for investment –</p> <p>New funds with commitments of £10m - £25m</p> <p>August to November 2015</p>	<p>Schroders have identified additional investment opportunities to take the allocation to the target 10% Complete</p>	<p>Identification of potential target funds for investment.</p> <p>August – October 2015</p>
Progress	<p>We have met with and reviewed our existing managers and concluded that we will commit to their latest vintages meaning that £20m will be invested over a three-year period.</p> <p>Three potential new managers have been identified and we are conducting due diligence.</p>	<p>Three manager have been identified and we are currently going through the due diligence process with the expectation that £50m will be committed by Jan 2016.</p> <p>We are also monitoring progress of the CIV, currently looking at this assets class, for further opportunities.</p>	<p>Schroders invested a further £5.5m at the end of October 2015 to fulfil the allocation.</p>	<p>Currently there are three funds interesting enough to be evaluated. Due diligence has been completed on the first with an initial target investment of £25m.</p>
Status	ONGOING - GREEN	ONGOING - GREEN	COMPLETE	ONGOING - GREEN

Croydon Council

REPORT TO:	PENSION COMMITTEE 8 December 2015
AGENDA ITEM:	B3
SUBJECT:	Update on matters relating to other employers in the Croydon LGPS
LEAD OFFICER:	Director of Finance and Assets (Section 151 Officer)
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report informs the Pension Committee about issues relating to other Scheme employers and admissions to the Croydon Council Scheme.	
FINANCIAL SUMMARY: This report updates the Pension Committee on those bodies wishing to be admitted to the Local Government Pension Scheme, thus allowing their employees to remain in the LGPS, where that service has been outsourced. The report also provides a commentary on any issues about contributions.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS 1.1 The Committee is asked to note this report.
--

2. EXECUTIVE SUMMARY

- 2.1 This report is to update members about the progress of outsourcing contracts where providers are seeking Admitted Body status in the LGPS.

3. DETAIL

- 3.1 Staff entitlements, when services are outsourced or other arrangements put in place, are covered by the Transfer of Undertaking (Protection of Employment)

Regulations 2006 (TUPE). With effect from the 1st October 2007, best value contracting authorities have been required to comply with the Best Value Authority Staff Transfers (Pension) Direction 2007, as made under Section 101 of the Local Government Act 2003. This means the transferring authority must secure pension protection for each member of staff which must be the same as, broadly comparable, or better than, those they had a right to acquire prior to the transfer.

3.2 This report should be considered commercially sensitive because it discusses contractual arrangements.

3.3 At the date of drafting this report there is one contract in the pipeline to have an Admission Agreements signed. This relates to the re-procurement of the meals on wheels service. The provider, Apetito, is already an admitted body in the Scheme.

3.5 From the 1 October 2015 the South West Waste Partnership, comprising Croydon Council, the London Boroughs of Merton and Sutton and the Royal Borough of Kingston, transferred 80 members of staff from the Royal Borough of Kingston to Veolia, who have become an admitted body in the Fund. This contract relates to the provision of household, refuse and recycling centres. These staff have transferred into the Croydon Pension Fund as Croydon are the lead authority. Forty staff are have opted to become members of the Local Government Pension Scheme.

3.6 There is no activity relating to schools that will impact on the Pension Scheme in this quarter but at the date of drafting this report there are three schools going through the process of becoming Academies. This will take effect from 1 January 2016. These schools are:

- South Norwood Primary School
- Good Shepherd Catholic Primary and Nursery School
- St Chards R C Primary Schools

4. RECOMMENDATIONS

4.1 The Committee is asked to note the contents of this report.

5 FINANCIAL CONSIDERATIONS

5.1 There are no further financial considerations flowing from this report.

6. OTHER CONSIDERATIONS

- 6.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

7. COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 7.1 The Council solicitor comments that the legal requirements regarding pension protection for authority employees where the provision of services are contracted out are as set out in the Transfer of Undertaking (Protection of Employment) Regulations 2006 (TUPE) and the Best Value Authority Staff Transfers (Pension) Direction 2007.

(Approved by: Gabriel MacGregor Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Chief Executives department, ext. 62552.

BACKGROUND DOCUMENTS: None