MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Tuesday 11 September 2018 at 7pm

Present: Councillor Ingleby (Chair), Councillor Krupski (Vice Chair), Councillor Best, Councillor Codd, Councillor Maslin, Councillor Muldoon, Councillor Sheikh

Also present: Rebecca Craddock-Taylor (Hymans Robertson), Nick Jellema (Hymans Robertson), David Austin (Head of Corporate Resources), Sarah Assibey (Clerk)

Apologies: Councillor Feis-Bryce

1. **Declarations of Interest**

   Councillor Best and Councillor Muldoon declared their interest as recipients of the Pension Scheme

2. **Minutes**

   The minutes of the last meeting were held as an accurate record.

3. **Exclusion of Press and Public**

4. **Invesco- Fund Manager Presentation**

   Georgina Taylor and Stuart Boucher of Invesco presented their report on Invesco Perpetual Global Targeted Returns Fund. The following was discussed:

   4.1. Invesco is an investment firm solely focused on investment management. The Global Targeted Returns Strategy launched in 2013, managed by the multi asset team. There is £21.9bn in assets under the strategy including £12.7bn in the UK-domiciled fund.

   4.2. The multi asset strategy targets absolute returns and low levels of risk; the target return is 3 month cash plus 5% on a rolling 3-year annual basis and the target volatility is less than half of global equity volatility over a rolling, 3 year period. The aim is get diversification into the portfolio to generate strong risk-adjusted returns. Invesco's portfolio typically consists of 20-30 individual investment ideas across asset classes with a time horizon of 2-3 years.

   4.3. The 3 stages to achieve this portfolio is research to approve ideas; fund management where ideas are combined; and implementation of the ideas. No individual investment position dominates the portfolio but they all do hold similar weight therefore enabling risk management.

   4.4. The LBL investment into Invesco Perpetual Global Targeted Returns Pension Fund has a realised volatility as a percentage of equity volatility of 27% since inception. The target risk is 35-40%. This number could grow over time. The 27% is due to not having enough ideas within the portfolio. Risk is needed to diversify the fund and meet the global volatility target. The average holding period for ideas is 2 years for Invesco, however, they are able to gradually remove ideas from the portfolio fairly quickly where necessary.

4.5. The Committee felt that other than slight concern over the short-term performance (the last 4 quarters), Invesco are still the preferred multi asset manager and this was supported by the research view of Hymans Robertson. Invesco's team remains stable which is of some comfort. The Committee resolved, though, to continue to pay close attention to Invesco and Hymans confirmed that they would advise the Committee accordingly were any action required.

5. Pemberton- Fund Manager Presentation

James Anderson and Mark Hickey of Pemberton gave a presentation on the Pemberton European Mid-Market Debt Fund II. The following was discussed:

5.1. The strategy targets attractive returns from senior loans to European mid-market corporates; 25-30 senior secured loans; and a target gross return of 8.5% IRR, 7.0% net. It is a well-diversified portfolio by country and sector and has downside protection through first ranking seniority and financial covenants. Lenders are closely involved in the direct negotiations with borrowers and the origination market is highly relationship-driven. Lenders generally agree to pay cash + 5.25%-8% pa.

5.2. Pemberton have 20 pension fund investors in their direct lending products. Pemberton explained that the asset class is generally resilient to changing market conditions and underlying assets are illiquid.

5.3. The fund performance to-date is in line with the target performance of 7% net returns. The current fund size is 985mEUR from 22 investors, with the next close target for end of September. The target final close is 2.5bn-3bn in December.

5.4. As second-close or final-close investors commit to the strategy, a proportion of their funds are drawn in order to 'equalise' their drawn amount with first-close investors. This may mean that Lewisham receives some of its drawn commitment back, albeit temporarily.

5.5. Pemberton require their borrowers to fill in a questionnaire before investing, confirming their compliance with ESG statutes that apply to their business.

5.6. The Committee generally agreed that Pemberton's presentation had been informative and that they held no current concerns on Pemberton's appointment.

6. Private equity

6.1. Given the change in personnel, the Committee was reminded of the strategic reason for the existing private equity investment - a target allocation of 3% of assets. Investment in private equity - unlisted, smaller, less mature companies - offers the potential for high returns but diversification of exposures and a long-term approach to investment is of paramount importance. The Committee last committed to private equity in 2014 and, as the commitment to individual strategies tend to have a finite life (5-10 years), the report discussed the need for ongoing commitment to private equity in order to maintain the 3% target investment.

6.2. The recommendation is to continue with the existing approach which is investing in a US private equity fund of funds with Harbourvest and also further investments in another Harbourvest fund of funds that is investing elsewhere in globally. The recommendation is for a $25m investment this year to the US fund and in 2019 a further $25m to the global strategy, with a rolling item on the business plan to discuss annual commitments thereafter. Hymans believe this investment will keep the LBL portfolio around the 3% target level.

6.3. One of the existing private equity investments for LBL is listed on the FTSE 250 and it invests in Harbourvest closed ended private equity funds. LBL invested in this listed fund c.8 years ago – Hymans raised concerns with retaining the listed investment, since there is overlap with its underlying exposures and the LBL's other investments in closed ended Harbourvest funds. It was noted that the listed investment for LBL appeared to be a legacy holding with the reason for its initial investment unclear. Hymans discussed the recommendation that this listed investment of £12m is liquidated in order to fund the two new $25m commitments, and remove the overlap issue.

6.4. The London CIV currently does not offer an opportunity to invest in private equity, so it is best to keep committing to Harbourvest so as to maintain the target allocation. Once the London CIV offers a private equity option, LBL can then consider this as part of the suggested annual business plan item.

RESOLVED The Committee agreed to this recommendation (option 3 of the report)

7. Property Allocation Review

Hymans Robertson presented this report. The following was discussed:

7.1. The current property target allocation in the Fund is 10% but the current actual allocation is 8.6% representing a shortfall of £18m.

7.2. The options suggested are to increase investment with Schroders (£15-20m further investment), to find a new manager using the £15-20m allocation or to maintain the underweight allocation.

7.3. Members are recommended to i) consider the report prepared by the Fund's advisors ii) agree to maintain the current underweight allocation, whilst monitoring developments in the current Schroders team and any property proposals developed by the London CIV.

7.4. Hymans remain somewhat concerned about recent changes within Schroders and the potential for pooling to impact the viability of Schroders property team. As a result, Hymans recommended no additional investment was made with Schroders. The nature of the property mandate is a fund of funds mandate and this amounts to £120m of LBL assets currently.

RESOLVED members agreed to the recommendation to maintain the underweight allocation and consider property options available via the London CIV as and when they are made available.

8. Investment Performance for the Quarter End June 2018

Hymans Robertson presented this report. The following was discussed:

8.1. There has been increased growth in markets over the last quarter. The US has recorded its highest growth rates since the start of the year although there are concerns amongst investment managers as to whether the US' strong performance can persist.

8.2. The UK's growth increased over the quarter as did Japan's. China's growth has depleted due to the impact of US trade tariffs

8.3. Within the UK there has been a fall in inflation. Interest rate rises have been occurring globally - the UK doing so in August. In currency, the US dollar has been performing very well. The pound has been very weak, largely due to uncertainties re Brexit.

8.4. Most assets in the Fund continue to be performing very well. Equity markets have performed very well and the Blackrock and UBS allocations have returned just over 5%. The valuation of the Fund's assets had increased to £1.36bn.

RESOLVED the report is noted.

9. Investment Beliefs

This exercise is practiced as it is good governance for pension funds and committees to have these beliefs as it provides a level of consistency with thinking and understanding of why a certain strategy is being adopted. It is making sure that the committee are not making sudden changes to the strategy or long-term targets. Hymans produced a questionnaire for members to complete, and through those answers a set of beliefs was drafted. The committee reviewed them and the following was discussed.

9.1. Under "Governance", some members expressed that the wording under that statement "the Fund does not have the governance structure in place to take tactical views and market timing is very difficult" can be difficult to comprehend as there are two statements in one and it could be seen to be ambiguous. The consultants explained the statement further stating the committee may not have the governance structure, time or data to hand to make the tactical decisions, similarly to advisors and should therefore delegate that responsibility to investment managers.

9.2. Under “Investment Strategy”, the statement “investing in assets that the Committee does not understand is an unrewarded risk. Hence the Committee should not invest in anything they do not fully understand”, which advisors further explained that the committee therefore delegates some asset selection decisions to specialist managers. While it is important that the committee does have some good understanding of investment, the managers have the expertise and are being paid to make such decisions. Officers are also continuously offering training opportunities to members to help their ongoing understanding of their knowledge.

9.3. Under “Investment Structure”, the statement “Equities are expected to generate superior long term returns”, advisors gave an example of equities outperforming cash and gilts over 5, 10 and 18 years, therefore equities are likely to outperform over very long term periods. Regarding the statement “Currency risk should be managed but at a reasonable cost and within governance requirements”, advisors explained that because there is currently no currency hedging in place which means that the returns of equities in the US, for example, are denominated in U dollar and transferred to the UK and there is no protection predefining the exchange rate that will be received in the future. This is important in the short term but less important in the long term. Hymans suggested that they provide for the November meeting a presentation to discuss currency hedging and in the interim the Officers would also investigate how easy and at what cost hedging could be put in place on the LBL’s overseas equity exposures,

9.4. Regarding the statement under “Responsible Investment”, “the committee should accept the voting policy of its investment managers instead of developing its own policy”, the responses from members appeared to be on the “disagree” aspect. Advisors explained that voting policies can be complex and that the committee should consider if the expertise and resource to actively vote is available.

RESOLVED the report was noted. Hymans will provide a final copy of the Investment Beliefs statement for the November PIC meeting.

10. General Update

The Head of Corporate Resources presented this report and highlighted the following:

10.1. The CIV currently manages seventeen funds, none of which Lewisham are currently invested in directly although the Fund benefits from a fee reduction with one if its passive managers as a result of negotiations with the CIV. Representatives from the CIV will be attending the November PIC meeting to provide updates on their progress.

10.2. Officers have requested data on carbon exposure from the Fund’s passive managers, Blackrock and UBS, which will be used in conjunction with the work undertaken in the wider portfolio.

10.3. The draft update to the Investment Strategy Statement was presented at the February meeting. The final ISS was appended at the meeting of which members agreed to the process.

10.4. The next Pension Board is meeting in October after rescheduling. The Board has asked for a review on a risk basis of the Council’s current compliance with the Pension Regulator’s requirements.

10.5. In the LGPS National Confidence Assessment by Hymans that members completed, the overall indication is that the Committee feels less confident in all areas of pension fund management. Training and learning opportunities will be specifically presented to the Committee in the coming meeting to address these areas.

10.6. Members are advised to make the Governance team or officers aware of any training opportunities they would like to attend. The list of upcoming workshops, conferences and seminars was appended.

RESOLVED members agreed to delegate the appointment of a carbon footprint provider to officers, with a Single Tender Action report to be signed off at Executive Director level.

RESOLVED members agreed to register with the National LGPS Procurement Frameworks and delegate this process to officers.

After Hymans Representatives left the meeting the committee discussed the pending investment consultant procurement.

10.7. Ideally, this would have taken place before Christmas so the selected advisors can undergo actuarial review in the New Year.

10.8. Officers recommended that the process is deferred as the triennial valuation creates financial and HR implications, but would like to ensure that the procurement takes place within the current administration.

RESOLVED members agreed to defer the procurement.

The meeting finished at 9.57pm